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THE GROWTH OF CURRENCY ORGANISATIONS IN INDIA

BY

ALAKH DHARI.

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TO

THE HON'BLE SIR JAMES SCORGIE MESTON,

K. C. S. I., I. C. S.,

LIEUTENANT-GOVERNOR,

UNITED PROVINCES OF AGRA AND OUDH,

THIS EFFORT

IS

BY KIND PERMISSION

RESPECTFULLY DEDICATED.

CONTENTS.

INTRODUCTION—

The introduction contains a survey of the recommendations made by the Royal Commission on Indian Finance and Currency. The findings of the Royal Commissioners on each of the following subjects are discussed in full detail :—

INTRODUCTION.

Before the advent of the British era the progress ot currency institutions in India followed along the lines of old eastern belief, *viz.*, of full-value legal tender money. The Government mints in pre-British days simply assayed and tested the precious metals and cut the same into convenient sizes. The Government stamp added nothing to the value of a coin but only certified to its weight and purity. There was no token metal or paper currency. This same cult was recognised and continued in the early British days. But when the conquests of science and the advance of modern ideas about economical forms of currency changed the old order of things and new beliefs and principles gained ascendancy, the theory of full-value legal-tender money underwent a radical change and the present system of token metal and paper currencies was introduced.

The framers of the present currency system in India have steadily striven to cast it on the lines of the latest accepted principles of monetary science in England. But, whereas, in England and elsewhere, the artificialities of a token currency are covered by the ample play of a genuine, full-value, gold coinage in the country, the currency policy of India is bereft of such assuaging characteristics. The task of tracing and recording the currency history of India is full of difficulties. It becomes exceedingly hard to trace events from point to point so as to record every successive development in the true light of its own contemporaneous circumstances and keep it free from the reflections and influences of subsequent events, when, as in the case of India, the whole system is, to a great extent, the result of a series of experiments and has never been deliberately adopted as a consistent whole,

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and when "the authorities themselves do not appear "always to have had a clear idea of the final object to "be attained."

In describing in detail the gradual growth of the different branches of currency institutions in India, I have endeavoured to present the official view and actions in the most liberal light and, where the popular view differs from the official one, to give expression to the people's beliefs and wishes with unflinching truth and straightforwardness but in a spirit of utmost moderation, loyalty and respect.

The currency system of the country has recently undergone a process of examination at the hands of a Royal Commission. The Commission had not finished its labours when this work was written(in November-December, 1913), hence its deliberations could not be embodied in proper places in the body of the book. To bring this treatise up-to-date I subjoin a brief resume of the Royal Commission's report and of its recommendations.

Letter No. 759 dated 21st. April, 1913, from the Secretary, Bengal Chamber of Commerce, to the Secretary to the Government of India, Finance Department.

As soon as the appointment of the Commission was announced, the Bengal Chamber of Commerce wrote to the Government of India that the Committee of the Chamber were inclined to think that if the Commission intended to undertake an exhaustive enquiry into the whole question in its Indian aspects, a visit to this country was imperative. The Upper India Chamber of Commerce (Cawnpore) also supported this view. But on the official publication of the Royal Warrant it became clear that the evidence would be taken in London. This caused widespread disappointment in India, as it was evident that considerations of distance, expenditure, time and other conditions would render an adequate presentation of the Indian stand-point before the Royal Commission, in London, impossible. The currency administration of

India had for some time been the object of great debate and criticism in India and, under such circumstances, a visit of the Commission to India and the hearing of evidence of the Indian public on an extensive scale, as in the case of Public Services Commission, would from the people's point of view have greatly helped in a clearer comprehension of the whole problem and would have gratified the popular sentiment. Since the conclusions of the Royal Commissioners are, unfortunately, in many important matters, at variance with the wishes of the people of this country, the disappointment caused by the omission of a tour in India has become all the more keen.

Looking through the evidence and the general tenor of the leading questions put to the witnesses, one discerns a spirit of restlessness with the criticisms and opinions urged by the exponents of the non-official Indian point of view and of impatience with the labours and recommendations of the Currency Commission of 1898 in points where the current London money market interests and views happen to differ from the views held by the Fowler's Committee. It was openly remarked that since the members of the Fowler's Committee had very little experience to guide them, their recommendations in regard to the extension of the use of gold in internal circulation might well be overlooked and that much importance need not be attached to their opinion.

The Commission held, in all, 34 meetings and examined 33 witnesses, classified as follows* :—

Representatives of the Government of India, including the Hon'ble Sir James Meston 4

Ex-officials of the Indian Government (Sir Guy Fleetwood Wilson, retired Finance Member, and Mr. F. C. Harrison, formerly Accountant General at Bombay)........................ 2

* The formation and constitution of the Royal Commission on Indian Finance and Currency and its scope of enquiry are described in detail on pages 36-38 of this book.

Representative of the Bank of England	1
Representatives of the Exchange Banks...........	2
Officials and representatives of the India Office ...	9
Representatives of the banking, commercial and financial interests in India....................	12
Persons directly invited by the Royal Commission, including Mr. Moreton Frewen	3
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The enquiry covered the following subjects:—(1) the general balances of the Government of India and of the India Office in India and London respectively; (2) the sale of council drafts by the Secretary of State in London; (3) the Gold-Standard-Reserve; (4) the system by which the exchange value of the rupee is maintained; (5) the provision of facilities in India for the coinage of gold; (6) the Paper Currency Reserve; (7) the financial organisation and procedure of the India Office; and (8) the question of the establishment of a Central or State Bank for India.

The Royal Commissioners begin by observing that "the first principle to be borne in mind in any considera-"tion of the Indian finance and currency system is that "the balances of the Government of India in India, and "of the India Office in London, and the portions of the "Gold Standard and Paper Currency Reserves located "respectively in India and in London, all represent in "the last analysis one single fund. The titles attached to "the constituent portions of this fund indicate to some "extent the nature of the needs and liabilities for which "the fund as a whole is required to provide.

"The name attached to each portion indicates the "primary function of that portion; but neither in theory "nor in practice have the separate portions of the fund "been entirely reserved for the objects indicated by their "separate names."

The above exposition of the functions and objects of the currency and financial resources of the Government of India is far from clear and definite.

The impression in this country is that every separate branch of the Fund has a definite object in view and a specified function to perform. The endeavours of the Royal Commission, or of the Government authorities, to ascribe new and extra liabilities to any of them, particularly to the Paper Currency Reserve, has caused a feeling of bitterness and distrust.

The Gold Standard Reserve is believed to be quite sufficient to meet any strain on the stability of the exchange value of the rupee. To look upon and earmark the Paper Currency Reserve, or any portion of it, as liable for the maintenance of exchange equilibrium is, under these circumstances, without any justification and a source of needless irritation to the people, who naturally regard it as their own money held in trust by the Government as security for the Paper notes, which the modern conditions of life render it more convenient for them to use in their day-to-day transactions.

If at any time it is found that the Gold Standard Reserve is not sufficient to maintain exchange in a time of emergency, it would, probably, be desirable for the Government to raise additional fnnds by the issue of temporary loans. A declaration that the Paper Currency Reserve would not be encroached upon by the Government for meeting exchange demands would impart greater confidence in the currency administration of the country and the pressure for the encashment of currency notes during times of crises, which is a marked feature of the Indian note system, would then naturally disappear.

The Government of India now hold about 18 crores of unfunded debt in the form of Post Office Savings Bank deposits. This amount is repayable at call to about 15,00,000

depositors and constitutes an important liability on the general balances of the Government of India. Human nature is often intuitive and though unable to account for its action at the time, it shows wonderful powers of anticipation and foreguarding of its interests. It may, perhaps, be a lurking fear that the general balances of the Government are liable to be put to uses for which they are not meant—viz., the solution of exchange difficulties and financial help to the London money market—that is at the bottom of the panic which prompted a run on the Post Office Savings Banks during the last few weeks. This run ought to provide a wholesome lesson to the advocates of the policy that the balances of the Government in excess of current requirements may safely be transferred to England or be legitimately looked upon, in a time of emergency, to support exchange.

Passing to a detailed analysis of the needs and liabilities for which the resources of the State are required to provide, the report summarises them under the following five heads :—

(i) A working balance in India for (*a*) the current expenditure on revenue and capital account of the Imperial and Provincial Governments throughout India; (*b*) the expenditure of local boards and municipalities for which the Central Government act as banker; (*c*) the Government savings banks; and (*d*) miscellaneous funds and services, such as funds in Court.

(ii) A working balance in the United Kingdom for the "home charges" of the Government of India on revenue and capital account including funds for the capital outlay of most of the Indian railway systems.

(iii) A reserve fund for the maintenance at the par of 1*s*. 4*d*. per rupee of the exchange value of the rupee with the sovereign.

(iv) A fund for securing the convertibility of the notes of the Government of India.

(v) The provision in India of fresh supplies of coined rupees and of sovereigns as at present at the rate of one sovereign per 15 rupees.

The Gold Standard Reserve.

The haunting principle of the entire currency system of India, according to the views of the Royal Commission, seems to be the provision for the maintenance of the exchange value of the rupee at 1*s.* 4*d.* and around this cardinal pivot the whole currency administration of India ought to revolve.

The Commission, therefore, came to the conclusion that the establishment of the exchange value of the rupee on a stable basis has been and is of the first importance to India. In order to achieve this end, the Commission has recorded as its deliberate opinion that—

(1) It would not be to India's advantage to encourage an increased use of gold in the internal circulation. (Para 8).

(2) India neither demands nor requires gold coins to any considerable extent for purposes of circulation, that the most generally suitable media of internal circulation in India are at present rupees and notes, and that the Government should, as opportunity may offer, encourage notes, while providing—and this is the cardinal feature of the whole system—absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for the settlement of India's external obligations. (Para. 76).

(3) The whole profits of the silver coinage together with any interest accruing from investments or loans made from the Gold Standard Reserve, should for the present continue to be placed to the credit of that

reserve, and that no diversion similar to that made in 1907 for railway development should be under any circumstances permitted until further experience allows of a much more accurate definition of the calls which the reserve may have to meet than is at present possible. (Para 79).

(4) No limit can at present be fixed to the amount upto which the Gold Standard Reserve should be accumulated. (Para 86).

(5) A much larger proportion of the reserve should be held in actual gold. By an exchange of assets between the Gold Standard Reserve and the Paper Currency Reserve, a total of about £10,000,000 in gold can be at once secured. This total should be raised as opportunity offers to £15,000,000 and thereafter the authorities should aim at keeping one-half of the total reserve in actual gold. (Paras. 93 to 100).

(6) The gold transferred from the Paper Currency Reserve in India might continue to be held there for a time as part of the Gold Standard Reserve, but, as we are of opinion that London is the proper place for the Gold Standard Reserve, steps should be taken to transfer it to London as soon as convenient. (Para. 100).

The attitude of the Royal Commission in the matter of location of the Gold Reserve has aroused much comment. These reserves ought never to have been taken out of the country. The presence of Indian stock of gold in London has in a measure made London less dependent, than it should under ordinary circumstances have been, on her own reserves. That a market of the vast magnitude and world-wide responsibilities, like London, ought to have a large stock of liquid gold none can for a moment doubt; that her present accumulations of gold are quite inadequate for her manifold needs is also admitted. If Indian Gold Reserves are removed from, or lessened in,

London, England will have to take special measures to increase her gold holdings. This will have a wholesome effect on the London money market and will, probably, attract attention to a state of affairs that has been too long neglected by the people there.

It is no doubt true that London is a preponderating creditor in the international short loan market of Europe and she could, during normal times, always increase her holdings of gold by reducing credit and calling in her dues, which are payable in gold. The inflow and outflow of gold to or from England is automatically regulated by the rise and fall of the Bank of England rate of discount. But the present war on the continent of Europe has shown that this device, though it is admirably successful in peaceful times, could still produce financial stringency and cause a famishment in the money market owing to the inability of England to realise her bills falling due during the course of war in the enemy countries. There were about 90 crores of rupees due to England from Germany in this way when the war commenced and all this money cannot be laid hold of so long as the war lasts.

The formation and existence of an additional Gold Reserve within the British Empire outside of England will prove a valuable source of strength to the Imperial Government in a time of crisis.

The opinion expressed by Sir Samuel Montagu, M. P., before the Currency Committee of 1898-99† is an eloquent testimony as to the futility and wastefulness, from the point of view of purely Indian interests, of the holding of Indian Gold Reserves in London. In times of stringency and danger, he observed, it is the gold deposited in India on which the Government can lay great dependence. An accumulation of gold in India would produce a great moral effect and it is possible that in time the Government

† Sir Samuel Montagu's evidence is reproduced on page 77 of this book.

may be able to reduce the rate of interest on rupee loans from 3½ to 3 per cent. This point is of considerable importance in view of the recommendation of the Royal Commission that the amount of annual rupee loans in India should be increased as much as possible.

The position and credit of the Government of India in the Indian loan market would be considerably strengthened if the Indian Gold Reserves are held in liquid gold in India.

The injustice to India in the matter of her Gold Reserve does not end here, but extends to its composition as well. The recommendations of the Fowler's Committee (1898) were to keep a reserve in gold. There was no idea then to include Consols and Stock in the term "gold", but later-day statesmanship interpreted the meaning in quite a different light and read new meanings in that simple word with the result that, until recently, most of the London portion of the Reserve was kept in securities and very little in actual gold.

The sale of a portion of these securities in the crisis of 1907-1908, and subsequent fall in their prices, ought to open the eyes of the powers that be to the dangers of locking up India's Gold Reserve in this risky manner. A full history of these losses is given on pages 92-95.

The following reflections by the Royal Commission on the policy underlying these investments are precise and to the point:

> In the existing circumstances of the London money market even the finest securities such as consols can no longer be regarded as identical with cash in the sense in which they were so regarded fifteen or twenty years ago, and their realisation might involve such a loss in capital value and such an aggravation of a crisis which it would be India's direct interest to allay, and to make the holding of more than a comparatively moderate proportion of such stocks undesirable in the case of the Gold Standard Reserve. Short term securities such as Treasury Bills, Exchequer bonds, and similar securities have this advantage over consols that the chance of any big loss of capital on realisation is less; but these securities may not be always realisable in large amounts quite so quickly or readily as consols, and their enforced realisation at a particular moment might, under certain circumstances, so aggravate an adverse situation in London as to increase India's difficulties and to injure Indian interests.

In any case, the realisation in a crisis of securities in large quantities, and even the calling in of sums lent out at short notice, are likely to cause some stringency in the London market, and if the exchange crisis in India which makes such realisation necessary is accompanied or directly caused by a financial crisis in London or reacting upon London, as is very probable, the difficulty of realisation may be accentuated, and the possibility of loss to India cannot be ignored. India should, in this respect, be as far as possible independent of London. Just as London must look to its own resources in such a crisis, and does not and cannot count on help from Indian reserves, so India should be in a position to defend its own financial position without undue recourse to the Gold reserves of London. The Gold Standard Reserve is built up out of the fruits of the economy of gold. It is a necessary condition of such economy that an adequate reserve should be held against an exchange crisis, and it is right that such reserve should be sufficient in itself to meet the crisis and should not be dependent on conditions which India cannot control or on resources accumulated by another country to meet its own liabilities.

In regard to the consols held in the Gold Standard Reserve, the Royal Commission call attention of the authorities to the consideration that it might be preferable in some cases to obtain an advance against such securities, rather than by an outright sale, since it might be possible to raise money in this way after it had become difficult to sell except at a very serious loss.

Considering the question of what the amount of actual gold held in the Gold Standard Reserve should be, the Royal Commission does not see any necessity for keeping the whole fund in gold, as it would take away an important source of future increase. The Commission, therefore, recommends that not less than one-half of the fund should be held in actual gold when the total fund exceeds £30,000,000; and that a minimum amount of £15,000,000 should be accumulated as rapidly as possible. "So soon "as circumstances render recourse to the Gold Standard "Reserve necessary," says the Report, "the policy of the "authorities should be to use both the securities and the "gold, advantage being taken of the release of gold to "facilitate the realisation of securities."

Its further recommendations are that 6 crores of silver held in the Gold Standard Reserve should be exchanged

treasuries throughout India and Burma in addition to the balances at headquarters in India and in London. According to the estimates framed by the India Office the minimum working balance required in London is normally about six crores of rupees and the Government of India, we are told, require a balance of about 12 crores to work their transactions. Since, however, between April and the end of the year there is a large net withdrawal from the Government treasuries, it is the practice of the Government of India to budget for an opening balance in India in each financial year of something over 18 crores of rupees.

There is no data from which to ascertain the accuracy of the above estimates, but as they are based by the Government on experience, there is no reason to doubt their correctness. Even the Royal Commissioners were unable to examine in detail the working of the "Resource Operations" of the Government of India, that is, the machinery for keeping the various treasuries and sub-treasuries in India in funds, but they felt it necessary to call attention to the importance of a periodic review by the Government of India of the amounts so held in order to secure all possible economy of balances and to take advantage of all fresh facilities for remittance which the growing development of communications and other modern improvements provide.

It will appear from the statistics given on page 125 of this book that the actual balances held by the Government, in India and in England, have been considerably in excess of the Government's own estimates of their requirements.

The policy underlying this huge accumulation of funds has been frequently criticised in India as well as in the evidence—official and non-official—before the Royal Commission. The report of the Commission condones the policy of the Government in this connection in the following platitudinous observations:

The great rise in the balance as a whole has not been in accordance with the anticipations of the Government; on the contrary, each budget has provided for a reduction of balances to a figure not far removed from the normal, and each year the intentions of the budget have been defeated by an improvement in revenue or by a falling off in expenditure which were not foreseen at the time of its preparation. It would seem, therefore, that primarily the question is one of estimating, and we cannot but feel that in preparing their estimates of revenue the Government of India have erred on the side of caution. We are convinced, however, that in the peculiar circumstances of India, this is an error on the right side, and that the consequences of too sanguine a forecast, perhaps committing the Government to premature expenditure beyond their real resources, and involving at any time the risk of a deficit, are much more serious than those which can arise from the occurrence of large surpluses. In the circumstances of such a country as India it is not safe to spend up to the hilt during a period of prosperity; there is everything to be said for a general policy of caution which utilises the increased resources of such a period to strengthen the financial position against the recurrence of bad seasons, and it is certain that the adoption of this policy in recent years has done much to secure Indian finance against vicissitudes in the immediate future.

A further cause of the large figures reached by the aggregate balances has been the failure to spend up to the amount estimated on capital expenditure. In commenting on this feature of the situation, the report continues :—

This feature is particularly noticeable in the year 1910-11, when over £3,000,000 out of a total estimated outlay of £6,500,000 in India remained unspent at the end of the year, and over £1,000,000 was similarly left unspent in London out of a total of £6,250,000. Much of the underspending is attributable to the Indian railway companies rather than to the Government authorities in London and India........This underspending is an important contributory cause to the size of the balance, because the probability of underspending only becomes known late in the financial year, whereas the borrowings of the India Office to meet such expenditure have usually taken place sometime earlier.

The general balances of the Government of India are, however, unnecessarily heavy. The impression in India is that this growth is due to excessive taxation. The table of figures given on page 125 of the book shows that the actual balances held by the Government have been year after year considerably in excess of the Government's own estimates of their requirements (*viz* : 12 crores for India and 4 millions sterling for England).

The remarks passed by the Royal Commissioners, though they correctly represent an important aspect of the situa-

tion, are far from convincing and will carry little weight with the critics in India. From the latter's point of view, the maintenance of such huge balances is not justifiable on any ground.

Reading through the evidence, written and oral, tendered before the Royal Commission, one discerns that one of the chief contingent causes that have necessitated the keeping up of such large balances has been the absence of co-ordination and unity of purpose in financial matters between the Government of India and the Secretary of State-in-Council. The Government of India contend—and they contend it rightly—that the management of the balances in India ought to rest with them. The India Office have been unable to dislodge the Government of India from this position. But they have pressed the counter-issue that the administration of Council drafts ought to rest with the Home Office. The result of this controversy has been that as soon as the Government of India succeed in accumulating funds in India, the Secretary of State hurries to withdraw it by selling drafts on the Indian reserve treasuries. "The policy adopted with respect to Council drafts"—aptly remark the Royal Commissioners—"has in fact "been to sell freely so long as there was a demand and so "long as there were balances sufficient to meet them. "In other words, it has been assumed that the proper "place for any surplus balances is London."

A more anomalous position for the financial resources of the Government of India it would be hard to imagine. The representatives of the people of India have voiced in unequivocal terms in the Imperial Council Chambers and in the press that the general balances of the Government ought to be kept in India, with the exception of such portion as is actually required to meet the ways and means programme of the Secretary of State. In any case, the location of surplus balances ought to be determined after a full consideration of all the varying

factors of the situation from time to time; and the time has come when the question of easing the periodical stringency in the Indian money market by the grant of temporary loans ought to be seriously grappled and solved to India's satisfaction.

The question of location of the balances has aroused much criticism and it is the complaint of the people of this country, to put it in the Royal Commissioners' own words, that money "has been moved unnecessarily from India "where it would have assisted the business, and the London money market has had an accession to its resources "at the expense of the country to which the money primarily belonged."

Another feature of the situation, which is much commented upon in India, is that when the India Office has been lending Indian money permanently in the London market to the extent of nearly 15 crores of rupees, at exceedingly low rates of interest, it is most undesirable for it to contract large loans to provide for its own ways and means policy at higher rates of interest. To borrow with one hand and lend out with another is quite indefensible but the impropriety of the action becomes more objectionable when it happens, as it has done in the present case, that the borrowings are made by the Government at a higher rate of interest and their own funds are lent out at a lower rate of interest. It does not need argument to lay down that the first object to which the surpluses ought to have been applied is the reduction or avoidance of debt. While agreeing in substance with this principle the Royal Commissioners do not find any fault with the course taken by the Government of late years in transferring huge funds out of cash balances to London, and in investing them in the London market, for they affirm that under the conditions hitherto laid down for loans in India, there was no effective demand for such loans and no use for the money in the country.

(*a*) *Indian Balance.*

An examination of the balances held in India shows that the funds of the Government were distributed on the 31st March, 1913, as follows:—

In 270 District Treasuries and about 1,500 Sub-Treasuries	Rs.	9,88,57,500
In 36 branches of Presidency Banks in India	„	3,29,74,500
In all the three Head Offices of the Presidency Banks	„	2,39,34,000
In the Reserve Treasuries in Calcutta, Bombay and Madras	„	13,36,30,500
Total ..	Rs.	28,93,96,500†

Branches of the Presidency Banks are regularly used for the keeping of the Treasury balances in the comparatively few places where such branches do exist, and the Government have made a practice of late years of offering to guarantee a fixed minimum balance for a period of five years as an inducement to the Banks to open new branches and take over the district treasuries in places where such branches are opened. But, except in places where such a guarantee is in operation, Government balances at the branches of the Banks seldom exceed immediate requirements to any considerable extent, the Government's policy being, as a general rule, to draw any surplus balances to certain centrally situated treasuries and finally to the Reserve Treasuries.

Commenting on the manner in which the Government hoard their balances, and on the independent treasury system in general, the Report observes:—

The independent Treasury system is not an ideal one and compares unfavorably with the practice prevailing in the United Kingdom and in most other

† It will be seen that instead of the normal balance of 18 crores, the Government of India held very nearly 29 crores in its coffers, and on analysing the figures it becomes clear that, of this huge sum, only about 570 lakhs was placed with the Banks. 329 lakhs, out of this 570 lakhs, represents balances at the branch offices of the Presidency Banks and as this money is often withdrawn with the utmost freedom, only a comparatively small portion thereof can be regarded as readily available in the money market. The rest of the money (unlike the system in England and other advanced countries where the balances are held by National Banks and are available for use in the money market) had been locked up in the Government treasuries, away from the reach of the people,

countries of keeping Government balances at a Bank. In the United Kingdom, as in India, a considerable portion of the total revenue is collected in first four months of the calendar year. The heavy collections of the revenue which then take place undoubtedly have a considerable effect on the money market, but the trouble is minimised in two ways, first because the money collected is immediately deposited at the Bank of England, where it is available for financing the commerce of the country; and second by the device of the Treasury bills for supply and ways and means, ways and means advances and deficiency advances, which enable the Government to tide over the lean period of the year by borrowing from the market sums which they repay as revenue accrues later on, thus maintaining some sort of equilibrium in the demands of the Exchequer upon the cash supplies of the nation.

The disadvantages of the system are accentuated by the special conditions of India, where business is subject to a seasonal tide of strongly marked character. That business, it will be remembered, is predominantly agricultural, and all the principal crops, whether jute or rice, cotton or wheat, or oil seeds are marketed in the autumn and winter. Thus every year there is a busy season with active trade and great demand for money, and a slack season when money frequently cannot be lent. Something of the same sort occurs also in the affairs of the Government; and far more than the proportionate amount of the revenue is collected in the first few months of each calendar year. We have noted that the minimum balance is reached in November or December. From that point the balance begins again to rise, and by the end of March is normally £4,000,000 higher than in December. This season of maximum collection of revenue coincides with the season of busiest trade, and thus it happens that, at the time when the market stands most in need of funds, the Government are taking off the market a sum of 6 or 7 crores not for the sake of immediate requirements but in order to meet disbursements during the slack season of the summer and autumn.

The Government cannot sacrifice the interests of the general taxpayer to the interests of trade. Nevertheless, we should be the first to recognise the immense importance of trade to the prosperity of the country and the revenues of Government. The principles now observed result in loans being granted from Government balances only in exceptional circumstances, and while there is a provision that Presidency Banks may retain on payment of interest sums in excess of those which it is the practice to leave with them, this provision appears to have had little publicity and has not been acted upon. In effect we may say that the assistance rendered by Government to trade has so far been confined to the amount left at the head-quarters of the Presidency banks.

The action of Government undoubtedly helps to create the annual stringency, and there is therefore at least a *prima facie* case for such counteraction as is possible to relieve it.

It is said that the stringency in the money market, so far as it is caused by the withdrawal of money by the Government, is relieved by the sale of Council drafts, which again place the surplus held by Government at the disposal of trade. This is largely true, but it omits some factors of considerable importance. The

demand for money arises in the first place from the necessity of financing the movement of crops up-country, but Council drafts are taken only when the produce is ready for export; there is thus an important period during which the needs of the market are not met by this means. It is obvious also that the sales of Council drafts are affected by circumstances quite independent of the Indian money market; a high bank rate in London, for instance, or the holding back of produce in India for higher prices, may result in the demand for Council drafts being slack in the busy season, while revenue collections are as heavy as ever. In this case the money so collected accumulates in the Reserve Treasuries and remains locked up there. As an illustration of this effect we may point to the experience of last cold weather, when there was a marked falling off in the sale of Council drafts, with the result that enormous sums accumulated in the Indian balances and at the same time the bank rate was high in all three Presidencies. Finally, even when Council drafts are being sold, a temporary surplus, as we have observed, is left in India during the closing months of the financial year which is not immediately required for Government purposes; and as far as this temporary surplus, at any rate, is concerned, the argument that the sale of Council drafts relieves the stringency caused by the action of Government has no relevancy.

We arrive, therefore, at the conclusion that the present methods of dealing with balances are open to criticism and we proceed to consider what remedies can be suggested for the evil of which complaint is made. For the purposes of this enquiry it seems desirable to review the discussions which in the past have centered round the utilisation of the balances in India. From 1863 to 1876, the whole of the Government balances at head-quarters were handed over to the Presidency Banks. On one or two occasions, however, the Government were not able to obtain on demand the free use of the balances deposited with the Banks and the difficulties which they experienced led in 1876 to the establishment of the Reserve Treasuries. It was felt that a Government exposed in a peculiar degree, as the Government of India undoubtedly are, to sudden demands and unforeseen contingencies could not afford to lose control of their balances, and in addition it was urged that the system which was about to be superseded was wrong in principle. "Capital supplied by Government," observed the Secretary of State, "and "not representing the savings of the community is a reserve on whose permanence "no reliance can be placed . . . . . . a political exigency withdraws the "adventitious resource, and the commerce which trusted to it finds itself pledged "beyond what its own resources can make good."

On the other hand, it must be mentioned that, in the same correspondence which led to the establishment of Reserve Treasuries, the same authority said that it would be open to the Finance Department in India either to retain the reserve in the Treasury or lend it out for short terms on suitable conditions as to interest and security. The question of Reserve Treasuries and of loans from Government balances has been a subject of discussion from time to time ever since. In 1888, the Bombay Chamber of Commerce raised definitely the question of loans by Government in the busy season, pointing out that the Treasury balances are at a maximum at precisely the period of greatest demand for funds. The Government, however, held to the position which they had taken up in 1876; they referred to a paper by Sir James Westland, to show that their bal-

ances were not excessive, and that the method of dealing with them was sound; trade, they thought, should depend on its own resources and systematic advances by Government in the busy season would tend to reduce the working balances of the country to an unsafe minimum with consequent risk of panic, to guard against which was an important object of the Reserve Treasuries. If advances were made below the published rate, they added, it would be difficult to confine the privilege of obtaining Government money to the Presidency Banks; these Banks would be tempted to speculative operations with State resources, allowing their own resources to fall below the limit of safety. The conclusion of the Government, therefore, was that they should confine any assistance from the Treasury to loans through Presidency banks at the published rate of interest in relief of temporary stringency.

In 1898 the Bengal Chamber of Commerce renewed the proposal, pointing out that the question was not one of wholesale surrender of Treasury funds to the Presidency Banks, but the discretionary disposal of them in periods of stringency. On this occasion the proposal had better success with the Government of India, for after some hesitation they proposed to the Secretary of State that it should be recognised as part of the ordinary business of management of the Treasury balances to lend money to the Presidency Banks at one per cent. less than the declared minimum rate of interest during the months of January to May each year. The Secretary of State was, however, unable to accept the recommendation of the Government of India. The effect, he thought, would be to interfere with the remittance to England at a favorable rate of exchange of the amount necessary for the discharge of the sterling obligations of Government. Any general understanding of the kind proposed, he added, would induce trade to lean even more than it had done in the past on the assistance of Government instead of taking steps to enlarge the amount of loanable capital in the country. The grant of loans in India accordingly was made subject to the retention by Government of an amount sufficient to meet not only their disbursements in India but the probable amount of remittances to England. On this condition loans were permitted, but the Secretary of State thought that they should not as a rule be made below bank rate, and this rule in fact has been followed ever since by the Government of India.

The most obvious solution of the problem would be to close the Reserve Treasuries and to place the whole of the Government balances in Calcutta, Bombay and Madras, with the head offices of the Presidency Banks there, or, if the Government attach great importance to having a reserve immediately under their control, it might seem enough to fix a maximum total, (say) £1,000,000 or £2,000,000, to the amount to be held in the Reserve Treasuries, and to place the remainder with the Banks. The Banks would naturally be called upon to make a suitable payment to Government for such additional privileges.

Such a change would involve a reversal of the action taken in opening the Reserve Treasuries in 1876 and the following years. It does not, however, necessarily follow that the action then taken was injudicious. The Presidency Banks have enormously expanded their business in the interval, and the proportion of Government deposits to private deposits would be very much smaller now than in 1876.

The alternative to the closing of the Reserve Treasuries is that Government should make loans from their balances. This is the course which we recommend on the understanding that the amount of the loans is within the absolute discretion of Government, and that they are made only on good security and for short periods.

The arguments which are still urged against the grant of loans in India are put forward partly in the interests of Government and partly in the interests of trade. The main arguments which are based on the interests of Government are two in number. In the first place it is said that the contingencies and sudden demands to which the Government of India are subject are so numerous that they cannot safely make loans out of their balances. It is true that the circumstances of the Government of India are such as to require a policy of great caution in financial administration. But the loans which we contemplate will not deprive the Government of the use of any portion of their balances for more than a short period, and they will be made only in the discretion of Government, and we can not agree that the argument applies to loans of this kind.

Again, it has been urged that the policy of granting loans in India may interfere with the remittance of Government funds to England at the most favourable rate. . . . . What is in the minds of those who urge this objection is that the grant of loans from the Indian balances will reduce the demand for Council drafts in the busy season when exchange is at its highest, and that, consequently, there will be a loss when the Secretary of State finds that he has to draw money to London at a less favorable season. It appears to us, however, that the effect of such loans cannot be to reduce the aggregate amount of Council drafts sold; at the most, it can result only in a shifting of the sales from one part of the year to another, and it is not clear that, if the exchange in consequence falls at one time, it will not be correspondingly improved at the other. To a certain extent, the number of bills might increase at the expense of telegraphic transfers, since the first are used more largely in the slack, and the second in the busy season; but against any slight loss caused in this way would have to be set the interest earned in the meantime on the Indian loans. . . . . In our judgment, there is nothing in the exchange question which would justify the Government in a general policy of refusing loans in all circumstances.

There are two distinct advantages which the Government forego when they refrain from making loans. The first is the interest which would be earned on any surplus balance which may be held in India in excess of immediate requirements. The second is concerned with the permanent loans which Government raise yearly in the Indian market.

We, therefore, recommend that the Government should declare their willingness to grant loans from balances in India when it is in their power and interest to do so.—Extracts from paras 137-158 of the Final Report.

The Commissioners next proceed to define the conditions and terms under which, in their opinion, loans might be given. They think that in the first instance

at any rate, loans should be confined to the Presidency Banks. All such loans should be secured by the deposit of the securities of the Government of India or Port Trust Stocks or similar securities. Loans, when granted, should be at a prescribed level of interest, whether one per cent, or two per cent. below the Bank rate. The Government should enter into negotiations with the Presidency Banks and lend to them if the terms offered are satisfactory. In making loans it will generally be found that the rates of interest earned in India are higher than those obtainable in England and it would thus be to the direct advantage of the Government and the country to lend the bulk of the money in India.

The Commissioners have rightly observed that the question how much may be needed to relieve stringency of the market can only be solved by experience. The Government of India in the ordinary course hold for several months in the year an unemployed balance in India, namely, the difference between the true minimum working balance of November or December and the figure to which the balance is raised by the additions made to it from that period onwards till the end of March which conicides with the season of busiest trade. There is no reason why normally all of this surplus, according to the circumstances of the time, should not temporarily be placed at the disposal of trade.

It will appear from the above extracts from the Report of the Commission that the question of granting loans from the Treasury balances, as also from the Paper Currency Reserve, has been dealt with in a spirit of most liberal and sagacious statesmanship. These views will be read with great delight in India and, if adopted by the Government of India, will result in easing to a marked extent the seasonal stringency in the money market of India and will improve conditions of, and expand, commerce and trade on sounder and more economic lines,

The attitude of the Commission in this matter is in accord with the views expressed by the leaders of financial opinion in India, though the Commission's actual recommendations are of a halting nature and some of the conditions imposed are likely to restrict the usefulness of the measure to a considerable extent. The people in India strongly feel that the grant of loans ought not to be confined to the Presidency Banks alone, but should be extended to other first class banking institutions as well. When the India Office considers it fit to lend out over 2 crores of rupees, *without deposit of securities*, to private firms like Messrs. Glynn, Mills, Currie & Co., and even larger sums to other banks like the London County and Westminster Bank, London Joint Stock Bank, the National Provincial Bank of England, etc., there is no reason why respectable Banks in India should be debarred from the privilege of getting temporary loans, *on the deposit of 1st class securities*, during busy seasons. To restrict the grant of loans to the Presidency Banks alone will largely detract from the usefulness of a project which is of the greatest importance for the good of the general trade of the country.

(b)—London Balance.

The primary purpose of the India Office balance in London, the Report rightly says, is to provide ways and means for meeting the expenditure incurred in the United Kingdom by the Secretary of State on behalf of the Government of India.

This balance is mainly fed from two sources, the proceeds of the weekly sales of Council drafts and the loans raised in London. There are certain direct sources of revenue, such as interest on loans advanced, but they are not of much importance. The Indian railway companies also pay into this balance the proceeds of the guaranteed stock or bonds issued by or on behalf of those railways. In the Indian railway system the Government are shareholders in most of the railways and act as their bankers both in London and in India.

When the annual budget is drawn up the Government of India make an estimate of the amount of Council drafts that they will be able to meet from their balances during the year. Each budget provides for numerous capital expenditures, for which money is raised by loans. The India Office accordingly, arrange to float loans in London to the probable amount required to make up the deficit, estimating for a closing balance at the end of the year of £4,000,000. The London money market being more favorable to borrowers in the early months of the calendar year, India Office borrow their estimated requirements at a time when the surplus or deficit over estimate of their receipts from Council drafts is not known to them and they have put forward this plea in extenuation of their heavy borrowings from year to year. This heavy borrowing, coupled with the inability of the departments in India to spend in most cases the total amount allotted to them for capital expenditure, has been, it is said, the main reason of the inflated balances of recent years.

The feeling in India is that the balances in excess of the normal requirements of the India Office ought to have been paid off, as soon as their superfluity was discovered, in payment of loans falling due, or, what is still better, fresh borrowings ought to have been suspended till the huge balances were spent away. To borrow money on interest, or renew previous loans, when India's own money to the extent of 10 to 15 crores is lent out in the market at exceedingly low rates of interest, has never appealed to the Indian mind and has considerably weakned their confidence in the wisdom of the India Office policy.

The Royal Commissioners were themselves impressed with the reasonability of this view. They observe :—

We are inclined to think that in their dealings with the temporary debt the India Office, like the Government of India, are open to the charge of being over-cautious. We would instance in particular, the renewal of £1,500,000 of India bills in December 1910 and again in December 1911. The fact that the summer monsoon was over and the probability of some considerable surplus in the receipts from sales of Council drafts could be foreseen by that period of the

year would have justified, we think, a less cautious procedure. Another particular instance of what appears to us to have been excessive caution is the floatation of a loan for £3,000,000 in London in April 1912 when the market conditions were very unfavorable, regard being had to the size of the closing balance on 31st March 1912, viz., £18,390,013.

(c) *Lending out of Indian Balance in London.*

The bulk of the cash balance held in London is lent out in the market, against security, to a set of borrowers whose names appear in an "Approved List" maintained by the India Office. Admission to this list is naturally a much sought for privilege and discontent has of late been apparent in London owing to the benefits of the use of Indian balance being confined to a very narrow circle. Commenting on this question the Commissioners were of opinion that the facilities for obtaining loans and the method of obtaining admission to the list of approved borrowers might with advantage be made more widely known in the city. The Commission also think that some change is needed in the regulations governing both the kind of securities which are accepted and the amount of cover, if any, required for each of the several classes into which the securities are divided.* They observe :

We are of opinion that the list of approved securities is unduly narrow. We understand that the India Office consider themselves precluded from accepting as security for loans securities transferable elsewhere than at the Bank of England. We think this is unfortunate. We should like to see the list enlarged to cover similar securities registered elsewhere, and it is a matter for consideration whether, in addition, some of the best Trustee stocks not now in the list might not be accepted to a limited extent subject to the provision of ample cover. In any case it would seem that the narrow boundaries of the existing list needlessly increased the difficulties of the India Office in finding borrowers for the whole of the large balances held during 1910 and the following years. †

The usual periods for loans to approved borrowers are from three to five weeks, or occasionally six weeks, according to the calculations of the Accountant General as to the term within those limits for which the money can conveniently be spared. In practice, when large sums are available for lending, the same borrower keeps loans continuously for very much longer periods, through their

* A classification of securities authorised for acceptance, and the amount of cover, if any, required are given on page 134.

† The India Office as a rule finds itself unable to place more than about £11,000,000 with borrowers on the list. From June 1909 to December 1912 the total India Office balance was considerably higher than this sum and the India Office was faced with considerable difficulties in placing the whole of its large balance on loans. The broker was therefore directed to place the remainder money on deposit (without security) with the London Banks.

renewal from time to time after the expiration of the first term. But the prevailing rate of interest has to be paid at each occasion for renewal and there is no hesitation in requiring repayment if a borrower is unwilling to pay the rate demanded. The criticism has been made that by leaving loans with the same borrower for long periods the India Office have in effect been lending for a long time at rates appropriate only for short term loans. It would certainly seem that the limit of six weeks is adhered to a little too rigidly, and that some unnecessary caution is exercised in this matter. For instance, no allowance is made, in fixing the dates on which loans are to be repayable, for the receipts likely to accrue from the sale of Council drafts during the interval. We recommend that the present rules should be relaxed whenever a favorable opportunity for lending for any longer period up to (say) three months coincides with ability to spare the money for so long. But it is important that the money should in all circumstances be kept readily available, since it represents a cash balance which should not be diverted from its primary functions for the sake of earning slightly higher rates of interest.

The attention of the Commission was attracted to the fact that two successive chairmen of the India Office Finance Committee and another member of that Committee were members of the directorates of Banks with which deposits were made on a large scale, at a time when those gentlemen held their appointments at the India Office. While exculpating these gentlemen from all blame in the transactions, the Commissioners felt it their duty to call the attention of the Secretary of State to the importance of avoiding as far as possible all occasion for criticism of this nature.

The magnificent remunerations earned by the India Office broker and the sensation created by the publication of the startling figures paid by way of commission to him have also formed the subject of review by the Commission. Though the scale was revised in 1911, still the volume of total remunerations earned by the broker has remained extraordinarily large owing to the high magnitude of the funds dealt with.

We are not convinced (observe the Commissioners) that the principle at present followed of paying him (the broker) in proportion to the amount of money handled and the rate of interest earned is right. It can hardly be said that the call upon his time varies in exact proportion to the amount of money handled, and after all allowance is made for his skill and zeal in seeking the best rate of interest available, the rate actually obtained must depend much more on the conditions of the money market than on his exertions. We suggest that the

working of the present arrangement should be watched. If the balances fall very low, or if they again rise very high, it may require reconsideration. If the principle of a sliding scale be maintained, it would probably be desirable to fix a maximum above which, and a minimum below which, it should not rise or fall.

I have alluded in chapter VI to the excessively high remunerations paid by the India Office to the Bank of England for the services rendered by that corporation, as compared with the charges allowed to the Presidency Banks in India. The Commission have expressed the opinion that the time has come for a general reconsideration of the whole subject of the relations of the Bank of England with the India Office.

Sales of Council Bills.

The Commission has been pleased to observe that "the "practice of transferring revenue surpluses to London to "be used in avoiding or reducing fresh borrowings for "capital expenditure has been thoroughly justified in "the interests of India, and the Secretary of State has "made good use, for this purpose or for actual reduction "of debt, of the balances from time to time accumulated "in his hands." The excessive drawings would have been permissible had they been, in reality, employed in the avoidance or reduction of debt as stated by the Commission, but knowing as people in India do that the activities of the India Office in the London loan market have been very brisk of late years and a sum of 10 to 15 crores of India's own money has constantly been lent out or deposited with Banks, in, and for the benefit of, the London money market at absurdly low rates of interest, the Commissioner's pious observations or attempts to whitewash India Office action in this respect will scarcely carry any conviction.

In the sale of Council drafts the Secretary of State is guided by the considerations, to put the same in the Royal Commissioner's own language, "not merely to meet his "own requirements on revenue and capital account, but "also to satisfy the demands of trade up to such an amount

"as will enable the balance of trade in India's favour "over and above the amount of the home charges on "revenue and capital account to be settled without the "export to India on private account of more gold than "is actually required in India for absorption by the public."

As things are at present, the India Office makes a practice of selling drafts on every Wednesday throughout the year so long as the rate for bills is not below 1*s*. 3-29/32*d*. This is done even if the India Office balance is high enough to dispense with this source of supply for the time being. Several witnesses have criticised this practice, and its justification is not very clear when there is no particular need at the moment for the proceeds of such sales. It is argued in favor of the practice that in this way the India Office are able to feel the pulse of the market and take advantage at once of any increase in demand. But this object could be attained, says the report, by continuing the invitation for tenders weekly while refusing to sell at very low rates except when money is actually required.

The conclusions arrived at by the Commission are that "the India Office perhaps sold Council drafts unnecessarily "at very low rates on occasions when the London balance "was in no need of replenishment, but we do not recom- "mend any restrictions upon the absolute discretion of the "Secretary of State as to the amount of drafts sold or "the rate at which they are sold, provided that it is "within the gold points. The amount and occasion of "sales should be fixed with reference to the urgency of "the Government's requirements and the rate of exchange "obtainable, whether the drafts are against Treasury "balances or against the Reserves."

The feeling in India is that the Secretary of State should always sell at a fixed rate, say 1*s*. 4 1/16*d*, or that he should never sell below par. In this connection the following remarks made by the *Pioneer* (in its issue dated 23rd May, 1914,) will probably be read with interest:

At the sale of Council Bills on Wednesday, the 20th, the Secr tary of State disposed of regular bills for Rs. 10,80,000, at the rate of 1*s*. 3 15/16*d*. per rupee and telegraphic transfers for Rs. 9,10,000 at the rate of 1*s*. 3-31/32*d*. per rupee. The allotment of Council bills for next week is Rs. 10 lakhs. The above shows that there has been a further weakening in the rate of exchange this week. It must, however, be remembered that exchange is always inclined to be weak in April and May, and that in the present year this weakness was disclosed as early as March, which is ordinarily a month of fairly firm exchange, so that the existing lowness of the rate of exchange is not extraordinary. What, however, is surprising is that the Secretary of State should think it worth while to sell these small parcels of Councils, which can hardly be necessary for trade requirements while thereby emphasising the lowness of exchange, more particularly in face of the distinct recommendations of the recent Indian Currency Commission to the contrary.

The sale of Council bills below the specie point (1*s*. 4*d*.) is a procedure on the wisdom of which the people of this country are not at all convinced.

Gold in Internal Circulation.

Discussing the question of gold in the internal currency of India, the Royal Commission have laid significant stress on the point that the first efforts to actively encourage the use of gold in circulation in India proved a failure.

The popular impression in India is just the contrary. People think that the course pursued by the Government has prevented the public from obtaining sufficient gold and it is inconceivable to believe that if any sincere efforts had really been made to encourage the use of gold in internal circulation they would not have met with success. Except in places where there is a currency office, gold sovereigns sell at a premium thus testifying to their scarcity and the people's craving to have them. The efforts of the Government to actively encourage the use of gold, if any, have, perhaps been of the same nature as the "provision that Presidency Banks may retain on payment "of interest sums in excess of those which it is the prac-"tice to leave with them." This provision though existing in black and white had very little publicity and even the Presidency Banks probably had little knowledge of it,

nor was it actively put into use to relieve acuteness of the money market. It is not difficult to imagine that the Government may have issued notifications to encourage the use of gold in internal currency but, as happens with most of the measures introduced by the Government under pressure of public opinion, the actual carrying out thereof was done in such an indifferent and half-hearted manner as to more or less stultify the results.

The arguments put forward by the people, and their representatives in the Press and in Council chambers, urging the extension of the use of gold coins in the internal currency of the country, as apart from their hoarding in reserve treasuries for use in the adjustment of foreign balances when required, are based on the accepted canons of economic law and are in consonance with the practice followed in all the civilised countries in the world. The philosophers and the statesmen of England, and of other civilised nations, have all declared the superiority of the noble metal to silver for purposes of currency, and gold currency is universally regarded as the ideal currency of a progressive nation. It carries with it a prestige and credit in foreign markets, denied to countries having a silver currency. The constant mintage in huge quantities of a depreciated token currency has filled the people with alarm and distrust which finds expression in the revival of the habit of hoarding gold. The hoarding habit had greatly disappeared but the recent imports of bullion gold into India, and the impossibility of their use as currency owing to the absence of any medium whereat bullion gold could be converted into coins of the realm, points to a loss of confidence in the token rupee and to the revival of gold hoarding with renewed vigour. This is a point requiring closest attention. The Royal Commission has recognised the necessity of securing confidence abroad in the exchange value of the rupee. The need for confidence in the genuineness and solvency

of the internal currency is also absolutely imperative and an acquaintance with the history of economic organisations would indicate that the practice of flooding the market with a token currency, at a time when the tastes and moods of the people are showing a repulsive change in respect of their use, would gradually result in forcing all existing gold coins out of circulation, and if persisted in, the people's hunger for gold will get whetted and be fraught with far-reaching consequences.

The Commissioners urge that in view of the artificial value given to the rupee in its relation to the sovereign and of the magnitude of India's trade with foreign countriet absolute security ought to be provided for the convertibility into sterling of so much of the internal currency as may at any time be required for the settlement of India's external obligations, and for this purpose they urge a huge reserve of sterling investments and actual gold in England. This is all very well but the point which requires elucidation is that India's trade with foreign countries almost invariably results in a balance in favor of India. The extent of calls that are reasonably and likely to be made on the Gold Standard Reserve is exaggerated beyond all limits and is made an excuse for hoarding millions of worth gold and that, too, six thousand of miles away from the country of origin. The accumulation of a stock of gold is no doubt necessary owing to the peculiar position of the rupee but the process by which this gold is accumulated results in forcing three times the volume of over-valued silver coins into circulation for one-third volume of accretion in the Gold Reserve. If therefore, a resort to this Reserve is rendered necessary it will redeem only one-third portion of the token currency which its accumulation had set into play, unless the extreme step of melting down rupees is taken. The exchange problem is thus getting more and more complicated and difficult of solution in proportion to the growth of token currency and the only way of arresting the evil seems to lie in the

direction of allowing future additions to the currency, when and as they become necessary, to take the form of gold, the importation whereof into India in settlement of the balance of trade ought to be freely encouraged. The existing gold reserves would then have greater chances of remaining intact than they have at present and the maintenance of the exchange value of the rupee would still remain the guiding principle of the currency policy.

The revulsion in favor of gold is apparent in all directions. Sir Alexandar McRobert said in the course of his evidence before the Royal Commission that he personally does what he can to encourage the people with whom he comes in contact to use sovereigns rather than rupees. The general tenor of evidence before the Royal Commission discloses the existence of a widespread desire both in official and in non-official circles for a gold currency in active circulation.

The Royal Commission, disregarding all this genuine yearning of the people for gold, have laid it down that the people should be educated into the use of economical forms of money, such as rupees and paper.

There may be and indeed there is, some truth in the observation that sovereign for sovereign gold in circulation would be less effective than gold in reserve for supporting exchange, and if in consequence of a greater success in the popularisation of gold, gold in circulation were to take the place of rupees now circulating, there would be a depletion of the proportion of gold now held by Government in the Paper Currency Reserve. But the evils of a policy of subordinating the entire currency administration of India to safeguarding exaggerated and magnified risks of exchange ought to be carefully considered. The Royal Commission would seem to have itself been convinced of what it describes as a "general "want of confidence" in the currency system when it

observes that "the advocates of gold currency ought "to remember that every step in the direction of "popularising gold makes it more likely that people will "cling to gold they have and seek to obtain what "additional gold they can on any occasion of crisis," rather than part with it.

The ideal which the people in India set before themselves is the system of the United Kingdom where fresh supplies of gold coins can be obtained at will by anyone who takes gold to the mint for coinage. The argument of the Royal Commissioners to discourage the use of sovereigns for the fear that it will militate against the use of notes, even though at first the sovereign may be able in some cases to obtain a vogue where at present this is not possible for notes, is therefore based on a line of reasoning which is likely to produce a feeling of unrest.

The Commission's further observation that the increased use of gold should be discouraged, for if the people once adapt their habits to the use of gold, they will not be easily won from them so long as gold is easily available, and its conclusion that it would not be to the advantage of India to encourage an increased use of gold in the internal circulation, are scarcely calculated to soothen the bitterness of people's feelings, and the outrage which many think has thus been inflicted on their sense of national respect will long rankle in their hearts.

The Commissioners have recommended that the people of India ought to be educated in the use of economical forms of currency such as paper and silver. This may be a very desirable object in itself but the experience gained does not encourage the hope that the present attitude and the procedure recommended will be successful in attaining it. There has no doubt been a great increase in the circulation of notes and this may be pointed to as an advance towards the use of what is described as economical forms of currency. But it would not do to

ignore the increased absorption of gold, which is very significant as it indicates the existence of a discontent with the existing methods of currency.

The policy to force token currency among the people, when they wish to have gold, is full of disadvantages. It will drive gold out of circulation. When gold is valued so highly as it is done in India, people are not likely to invest it or make other profitable use of it, so long as they run the risk of getting token coins when their investments realise. Gold is thus kept out of employment. While, therefore, it is doubtful whether the present methods of currency are having any salutary educative effects on the people, the process of amassing of gold continues with great vigour and intensity. The pressing necessity, under the circumstances, is not so much an education in the use of economical forms of currency as education in the use of hoarded wealth. The most important step in the latter direction is to convince the people that if they use their gold they will get it back when they realise their investments. This cannot be done unless gold circulates freely in internal circulation and the currency organisation of the country is equipped with a Mint where bullion gold can be converted into sovereigns free of charge. With gold coins in extensive circulation, there is every likelihood of the habits of the people being changed and the stored-up gold being brought into play and used for purposes of investments.

On the subject of a Gold Mint for India, the Commission recognises that there is a strong wish for the throwing open of Indian mints to the free coinage of gold, but it does not share this view nor can it recommend on its merits the establishment of a gold mint in India. But it adds that to gratify the Indian sentiment, and provided the Government of India are prepared to incur the expense, there is no objection in principle either from the

Indian or Imperial standpoint to the establishment of a gold mint, provided the coin to be minted is the sovereign (or half sovereign); and it is pre-eminently a question in which Indian sentiment should prevail. If a mint for the coinage of gold is not established, the Commission recommends that the notification of the Government's readiness to receive refined gold at the Bombay mint should be renewed on suitable terms.

The attitude of the Commission towards gold currency has caused disappointment in India as people were fondly hoping that the labours of the Commission would hasten the attainment of their long-felt desire for an increased use of gold as currency and it would respond to their wishes for opening of the Bombay Mint for free coinage of gold. It is needless to add that, as clearly foreseen by the Commission itself, any attempts to refuse legitimate facilities for the use of gold coins "would be unjust "and foredoomed to failure, and could only cause alarm "and instability" to the currency system as a whole and "it is important that the Government should continue "to act on the principle of giving the people the form "of currency for which they ask."

In this connection the following note of dissent, by Sir James Begbie, Kt., Secretary and Treasurer of the Bank of Bombay, appended to the Report of the Royal Commissioners will, I think, be read with considerable interest in India:

1. I regret that I am unable to concur in the conclusions and recommendations contained in the Report on the subject of the currency policy.

2. That policy has been directed to the attainment of stability in the exchange value of the rupee by means of gold reserves collected from the profits realised on the coinage of rupees. Whilst it has been successful in achieving that object, it has brought into existence an extensive token currency which, in my opinion, is not conducive to the interests of India. I regard that form of currency as undesirable for a country which absorbs gold on a very large scale.

3. A brief examination of some of the chief arguments brought forward in favour of the measures actually adopted for securing stability in the exchange

value of the rupee, and of those urged against the use of the means originally proposed for securing stability, viz., a gold currency with gold in active circulation may help to make my point of view clear.

4. I take first the arguments given in support of the existing policy. The point has been pressed that the public preferred and demanded rupees, and the demand had to be met. That is a reason which carried considerable weight in the early years of the period during which the policy had been developed, but it has now lost its force. The public have absorbed during the last 12 years approximately equal amounts of rupees and sovereigns, but the demand for sovereigns has rapidly increased during the last four years. These recent gold requirements show an important change in the currency needs of the people, and indicate a preference for gold over rupees.

5. The next argument is one which has latterly come into prominence, viz., that the Indian system has close affinities with the currency systems of certain other countries. Such analogies are, I consider, unsafe as a guide to Indian policy, because the conditions are not identical. In none of those other countries is there the same private absorption of gold that there is in India. Whatever experience elsewhere may be, the recent demands for gold in India show a loss of confidence on the part of the public in the token rupee, and that is a situation that should not be ignored. The need for confidence to secure the exchange value of the rupee is recognised, but not the need for confidence in the currency in other respects. It is no longer possible to say that the token rupee is preferred by the Indian public and satisfies their currency requirements in face of the fact that they have latterly exhibited so strong a desire for gold as the statistics indicate. At least there is not now such general confidence in the rupee as would, in my opinion, alone warrant further large extensions of the token currency.

6. Another argument given is that it is desirable to educate people in the use of more economical forms of currency than gold. That, of course, is a desirable object, but the experience so far gained does not inspire the hope that the educative effect of present methods will be successful in attaining it. The increased circulation of notes may be pointed to as an advance towards the use of more economical forms of currency; but it is due, not solely to a desire to economise in currency, but partly at least to increased facilities for the employment of notes. Against this favourable sign must be set the increased absorption of sovereigns. This demand for gold coin, accompanied as it has been by increased demands for gold bullion, dominates the whole currency situation. For a country which takes gold in great quantities an extensive token currency is most unsuitable. It has the usual effect of driving gold out of circulation. It has the still greater disadvantage that it keeps the gold out of useful employment. People who value gold so highly as to store and hold it to the extent witnessed in India are not likely to invest or make other profitable use of it, so long as they have to take the risk of being repaid in token coins when they realise their investments. The token currency not only prevents the holders of the gold from utilising it to some advantage, but the country as a whole loses the benefit that should accrue to it from the possession of great wealth. While, therefore, the process of education

in the use of economical forms of currency is proceeding, the probabilities are that the people will none the less continue to amass their growing wealth in solid gold. In my opinion, what is needed is not education in the use of economical currency so much as education in the use of the stored-up gold. The first step, however, is to convince the people that if they use their gold they will get it back when they want it, and that cannot be done while there is this extensive and expanding token currency. A currency in which gold was a more prominent feature and to which token coins were less freely added would be more practical as an educative force. Gold coins would be suitable and convenient for many ordinary currency purposes, and by using them the public would be gradually led to use gold for other purposes, such as investments, especially if a considerable circulation of gold existed, sufficient to inspire the public with confidence that when they wanted their gold restored to them they could get it.

7. I come next to reasons advanced against a gold circulation for the support of exchange. That, of course, is true that gold in circulation is a better protection for exchange than token coins. Gold in circulation can never endanger exchange stability. It cannot be too strongly emphasised that danger lies in the token currency alone when unfavourable trade conditions prevail. In the words of the Report (paragraph 62): "It is the surplus token and not the gold "which will seek an outlet at time of weak exchange." Moreover reserves of gold can be accumulated from a gold circulation through the note issue and a good banking organisation. Even under the existing system the most satisfactory part of gold reserves is the gold in the Paper Currency Department. The full equivalent of the currency issued against it is saved in gold for the reserve, whereas the Gold Standard Reserve represents only about one-third of the token currency from which it was saved, and will redeem only that proportion of it, unless the extreme step is taken of melting down rupees. Also a considerable portion of the coin reserve of the Note Department must be held in rupees at present. With a free circulation of gold a much smaller portion could be held in rupees and a correspondingly larger part in the gold.

8. The objection that gold is an expensive form of currency is one which I consider can easily be pressed too far in the case of India. The token currency is being steadily exchanged for gold. To the extent at least to which the process is carried the country is not saved the expense of the gold by the present system. Also, if as I think is the case, the token currency has the effect of encouraging and strengthening the hoarding habit, it is not true economy to object to the expense of a gold currency, and as a result to force gold out of circulation and prevent its employment in other useful ways, thus causing extreme waste.

9. Another objection is that gold coins, especially coins of small value, would be formidable rivals to currency notes. In my opinion notes will usually be preferred to coin—whether gold or silver— for such purposes as bank cash reserves and frequently for effecting remittances. If the use of notes for other purposes is endangered in any way by a circulation of gold coins because the latter are preferred, it has to be remembered that notes may be affected by the growing demands for gold. The possibility that these demands will spread should be re-

cognised. If the public want gold they will get it whether they hold notes or rupees, and when they prefer gold they are not likely to be satisfied with notes, payment of which can be demanded only in rupees.

10. The hoarding habit in India is no doubt a difficult problem. Its recent rapid development in increased demands for gold and the possibility of its further expansion, make it a question of the highest importance. I do not, however, think the opinion expressed in paragraph 75 of the Report that "the hoarding "habit is sanctioned by the experience of centuries in India and by religious and "racial laws and customs" sufficiently accounts for the accelerated pace it has latterly acquired. In my opinion, that is to a large extent the outcome of the policy which has brought into existence the extensive token currency. Up to the closing of the Mints in 1893 to the free coinage of silver the public had been accustomed for generations to full value coins for their currency requirements, and they are not now prepared to hold their profits and savings in the form of over-valued rupees. Hence their preference for gold, both coin and bullion. I am therefore unable to agree that the habit is one which should be regarded as inevitable in Indian social or religious conditions and not susceptible to treatment. The statistics show that great progress has been made in attracting the cash reserves of the people into useful and profitable channels, such as investments and deposits with banks. But they also show this later reversion to hoarding on an extended scale, which is thus a retrograde movement, indicating a greater and not unnatural desire for solid security than for profitable returns on investments in a currency medium which does not provide the kind of security now clearly preferred. It seems to me that it is not to the interest of India to have its rapidly accumulating wealth diverted into idle hoards by the token currency policy.

11. But even if that policy has not been the cause of the increased demand for gold, the difficulty remains of drawing hoarded gold into profitable use. Capital is proverbially timid and nowhere more so than in India. If, therefore, the gold held in India is to be attracted into useful employment it can, I think, be done only by providing security that when it is invested the investments will continue to represent gold, and be convertible into gold, by means of a gold currency policy in which the public will have confidence.

12. For the reasons I have indicated, I am of opinion that the true line of advance for the currency policy is to discourage an extension of the token currency by providing increased facilities for the distribution of gold when further increases in the currency become necessary. These greater facilities should, I consider, include the issue of gold coins from an Indian mint of a value more suitable for general currency use than the sovereign and half-sovereign for the purpose of assisting the distribution of gold when, as is frequently the case, the balance of trade is strong in India's favour and gold arrives in considerable quantities. I also think that supplies of gold coins should be laid down in the up-country districts with the object of giving the general public effective opportunities of obtaining gold coins.

13. I do not however recommend the disposal into circulation of any of the existing gold reserves. The maintenance of the exchange value of the rupee

should continue to be the guiding principle of the policy, and the reserve accumulated specially to secure the stability of exchange should continue to be specifically set apart for that purpose. But as future additions to the currency become necessary by reason of favourable trade balances, the additions should take the form of gold which will be imported in settlement of the balance of trade. With the present system it is sometimes found necessary to anticipate fresh additions to the currency by providing silver for coinage from the reserves. In my opinion it would be better to issue gold from the Paper Currency Reserve to the public in such circumstances and allow the gold when imported later to accumulate again in that reserve.

14. The procedure which I have suggested would, of course, be applicable only to normal times. Should the situation caused by the crisis of 1907-08 recur and the gold reserves be depleted to support exchange and the reserves inflated, the issue of gold for internal purposes would require to be suspended until the surplus rupee reserves were reabsorbed by the public and the gold reserves restored. So long as such an extensive token coinage is in existence, it is important that the public should use it.

The Paper Currency.

The recommendations of the Royal Commission regarding the Paper Currency are of a very far-reaching character: The Commissioners say.

(i) The fiduciary portion of the Paper Currency Reserve should be increased at once from 14 to 20 crores. But instead of merely fixing this figure as a maximum we propose that the maximum of the fiduciary portion should be fixed at the amount of the notes held by the Government in the Reserve Treasuries plus one-third of the net circulation‡ for the time being. Under this proposal the invested portion of the Reserve will be at once increased by six crores. We recommend that this result should be effected by a transfer (at market value) of sterling securities to that amount from the Gold Standard Reserve in exchange for six crores of the gold now in the Paper Currency Reserve in India.

(ii) So long as the gross circulation exceeds 60 crores, it will be within the power of the authorities to increase the investments of the Reserve and we propose that the Government should have power not only to make such further permanent investments as they think fit but also to make temporary investments or to grant loans either in India or in London. In India such loans should be made to the Presidency Banks on the same terms as we propose in the case of loans from balances, while in London the Secretary of State should have power to lend out in the London market sums received in payment for Council Drafts sold against the Currency Reserve in the busy season so long as the total of the cash portion of the Reserve does not fall below two-thirds of the net circulation.

We hope for the following advantages from our recommendations:—(I) while the permanent addition to the invested portion of the Reserve will be no more

‡ By net circulation the Royal Commissioners mean the gross circulation less the amount of notes held in the Reserve Treasuries.

than is justified by past practice and experience without in any way endangering the complete convertibility of the notes, the revenues of India will secure the profit earned by investing the amount now held idle in the form of gold in India. There will be occasions, especially in the busy season, when it will be safe to lend temporarily sums which it would be unwise to invest permanently. (2) The power to make such loans will, therefore, enable the Government to earn interest on sums which would otherwise be idle needlessly, and will provide at the same time a much needed facility for a temporary expansion of the currency in the busy season, by virtue of which the market may obtain some relief, though not at first perhaps, a very great amount, from its recurrent stringency. (3) The power to make temporary investments in London on account of the Paper Currency Reserve will be a convenience to the Secretary of State in permitting him to sell Council Drafts against the Paper Currency Reserve, in anticipation of silver purchases or of any other cause, without the loss of interest or other disadvantages which might sometimes come about if he were compelled, without discretionary power, to utilise the entire proceeds of such sales in earmarking gold. (4) As the circulation of notes in India increases, it will be within the power of authorities to increase, as and when desirable, either the permanent or the temporary investments of the Reserve or both without a special Act. (5) The power to make loans from the cash held against notes in the Reserve Treasuries will provide the Government with a useful alternative or supplementary means of counteracting some of the disadvantages arising from the existing Reserve Treasury system.

We think it eminently desirable that the use of notes in India should be encouraged by all legitimate means. With this object in view, we recommend that the Government should increase, whenever and wherever possible, the number of places at which the notes are encashable as of right as well as the extra legal facilities for encashment. We think it would be desirable to universalise at once the notes of 500 rupees. With the experience so gained it may be found possible to carry universalisation still higher. We do not think that the extra cost of remitting specie from place to place to provide for the encashment of notes would, except at the outset, be appreciable, and we think that, in any case, it would be more than counterbalanced by the advantage of an increased circulation of the notes as a medium of currency.

The gold remaining in the Paper Currency Reserve in India will be used for meeting demands in India just as at present. The Government will not undertake to supply gold in all circumstances, but should be ready in normal times to supply gold for internal purposes up to the full extent of the resources of the metallic portion of this Reserve.

The Secretary of State will hold (in London) not more than the amount of £5,000,000 which we have allowed for as the normal amount of actual gold likely to be available in London outside the Gold Standard Reserve in support of exchange. In a time of crisis this sum of £5,000,000 should be treated, not as the first line of defence for exchange, as it has sometimes been called, but as standing behind the Gold Standard Reserve, especially the gold portion of it, so far as exchange is concerned, while serving also the important function of acting, together

with and in support of the sterling securities in the Paper Currency Reserve as a final resource for securing the convertibility of the notes in an internal crisis in India. Any additions to the gold held on account of the Paper Currency Reserve in London over and above the sum of £5,000,000 should be regarded as temporary only, and used as and when required for the purchase of silver for coinage into rupees, the function of such additional gold being to maintain the nternal currency of India and not to support exchange.

The people in India are no doubt very grateful to the Royal Commissioners for their suggestions to extend the use of Paper Currency Reserve for purposes of making temporary loans in India during times of stringency and for their recommendation in regard to the universalisation of notes of Rs. 500 and higher denominations. Any extension of the facilities for the encashment of notes will be greatly welcomed by the large mass of note-using population and tend to popularise and widen the use of the Paper Currency.

The question of investment in fixed securities is a contentious point. Looking through the circumstances surrounding the growth of the Paper Currency in India, I think that the fiduciary portion of Paper securities already stands sufficiently high. This matter is discussed at length in Chapter V.

It may, perhaps, cause un-necessary apprehension if the Government arm themselves with general powers to enhance the fiduciary portion of the Paper Currency Reserve, as and when they like, according to the fluctuations in the volume of the circulation. Every alteration in the fiduciary portion of the Reserve ought to be made, I think by means of a special Act, as has hitherto been the case in India and in England. People thus have opportunities of reviewing the situation from time to time and can discuss the matter in all its bearings. Such discussions tend to establish confidence in the currency administration of the country and chances are afforded to the Government to explain away misunderstandings and also to the public to rectify erroneous impressions and correct its knowledge of facts and figures.

The recommendation of the Commissioners to make temporary investments by grant of loans in the busy season in India is a welcome movement and all further investments from the Paper Currency Reserve for the present may, I think, be restricted to such temporary loans only. The introduction of the principle of investment of money from the Paper Currency Reserve in the London loan market would, probably, cause severe comment in India and might easily excite suspicion. In the interests, therefore, of the stability and growth of the Paper currency, I would urge that the ideas of investing Paper Currency Reserve in loans in England be abandoned. The English money market is already being considerably helped from Indian funds, through investments from general cash balances and from the Gold Standard Reserve, and the extension of this practice to the Paper Currency Reserve may well be regarded as inexpedient.

The investment of a part of the fiduciary portion of the Paper Currency Reserve in sterling securities is highly objectionable in view of the consideration that currency notes are a purely Indian institution and all benefits arising therefrom should be confined entirely to India, and not charitably given away to ease the market of gilt-edged securities in foreign countries. Apart from all this, India stands to lose in a large degree through the needless investment of Paper Currency Reserve in depreciating sterling securities instead of the Indian securities the market for which, in spite of the financial crises and famines through which the country has so often passed, has always remained firm and steady. If the field of investment in the Government of India promissory notes is considered too narrow, the list of acceptable Indian securities may well be enlarged.

The Royal Commissioners have been pleased to observe "that a paper currency, if readily encashable, is the most "economical medium of circulation, and at the same

"time provides a readily available reserve of gold for "foreign remittances." The tendency to manage the Paper Currency Reserve with an eye to its use for support of exchange and for foreign remittances is a policy on the soundness of which the Government cannot be congratulated and the anxiety of the Home Government to divert the Paper Currency Reserve from its primary function, as disclosed from the official correspondence published by the Royal Commission, cannot but give rise to a feeling of distrust and tend to detract from the use of currency notes for purposes of keeping reserves and savings of the people.

The propounding of the principle that the Paper Currency Reserve has any function other than that of ensuring the convertibility of the currency notes is, as expressed by the Hon'ble Mr. Webb before the Commission, particularly vicious and radically unsound. It casts an unmerited suspicion on the efficacy of the Gold Standard Reserve. The thrusting of London money market interests into the Indian Paper Currency system and the removal of substantial portions of Currency Reserve from India to England will never satisfy Indian critics and, if persisted in, may detract from the popularity and general growth of the Paper Currency itself.

The diversion of Paper Currency Reserve from its original purpose and for providing security for the maintenance of exchange is a step the soundness and wisdom of which has been doubted by expert financial advisers of the Government of India themselves and it may, with all respect to the authorities, be urged that it would be highly prudent to revert, as far as possible, to the original conditions regarding the treatment of these funds, viz., the entire bullion portion of the Currency Reserve should be held in India with the sole object of securing the prompt conversion of notes into such coins as the public may lawfully demand. Over nine crores worth gold sove-

reigns belonging to the Paper Currency Reserve were, on 31st March, 1913, held by the Bank of England in London. Enlightened public opinion in India views with great disfavor the removal of such big sums from India to England, and the continuance of this policy may perhaps engender, to use the very words of Professor Keynes, a member of the Commission, feelings of:

> Jealousy of the too powerful magnates of the London Money Market obtaining what should belong to India's market for their own purposes; jealousy of the Secretary of State seeming, like a man who invests abroad, to seek in this way an independence of India in case of trouble; jealousy of Great Britain, who might use or regard India's "ear-marked" gold as her own war-chest.

A train of thought based on such premises produces powerful and natural—though viewed from the standpoint of idealistic economics probably unfounded—prejudice which it is exceedingly difficult to combat. It is, therefore, highly desirable in the interests of smooth and contented government and for the expansion of paper money that a measure, like the one under discussion, which provokes widespread criticism be eschewed and abandoned.

In accordance with the recommendation of the Committee of 1898 (para. 70), that the Indian Government should restrict the growth of their gold obligations, and in view of the well-known advantages of internal over external debt, it has been the recognised policy of the Government to raise in India as large a part as possible of the sums which they require to borrow each year.

Those who are qualified to speak on behalf of the Indian banking community are all agreed in stating, says the Report that larger loans could be issued each summer in India, if some means were available for counteracting the stringency that recurs annually in the winter and early spring. The practice of making loans from the Paper Currency Reserve and from balances will certainly assist the Government in increasing their annual rupee loans in the

summer. The Banks would probably be glad to keep larger holdings of Government stocks, if by so doing they did not run the risk of having insufficient liquid resources n the busy season.

During the last two years the Government of India have raised 3 crores a year by means of 3½% rupee loans floated in India. Last year the loan was taken up at 96, at a time when the market value in the London market of 3½% India sterling loan bills was about 87. In 1914, the loan of 5 crores was covered more than twice over and was issued at an average rate of about Rs. 95-9-0.

Financial Organisation of the India Office.

The organisation of the India Office and the procedure of its work are conditioned by Parliamentary Statutes under one of the principal Secretaries of the Imperial Crown working in co-operation with a Council. The financial work of the Council is conducted by a Finance Committee.

The Finance Committee as now constituted consists of five members of the Secretary of State's Council, two of whom are bankers connected with large banks in the City of London; the three remaining members represent Army, Public Works and General Administration. The two financial experts have no Indian experience and there is, thus, at present no person in a Committee, which represents the highest and most important financial body of the Government, having any direct knowledge of Indian finance and commerce. This is a striking example of disregard for Indian feelings. Need it, then, be wondered why India's confidence in the India Office financial administration is getting weakened. Formerly, no doubt, there used to be in the Council one member who had held some high financial office in or under the Government of India, but on the retirement of Mr. Finlay in 1906, when cash balances began to get swollen and

the necessity for advances in the London money market became pronounced, the Indian experience was not considered necessary and this useful practice was discontinued. The chairmanship of the Finance Committee is often bestowed on some London Bank director who is, often, quite innocent of direct Indian financial experience or knowledge.

Until 1907 the salary of every member was £1,200 a year and the tenure of office was for 10 years. The salary now is £1,000 a year and the tenure of office is for seven years.

Much criticism has been raised in India at the continuance of a system which gives preponderating influence in the India Office Council to men engaged in business in the City and the practical exclusion of the representation of the Indian non-official banking interests and experience. It is recognised that the pay and tenure offered by the India Office are generally considered insufficient to attract the best class of London financial advisers, as these remunerations compare very unfavorably with the general rate of emoluments earned by really able men in the City. There is a general impression here that if the India Office have been able to secure, now and then, the services of able financial advisers on such scanty remunerations, the probabilities of the indirect benefits derived from the utilisation of large Indian funds at exceedingly low rates of interest, and of the chances of obliging others in a similar manner, may have acted as powerful attraction in the acceptance of the job.

The Royal Commission have expressed themselves on this point as follows :—

We find no ground whatever for the suggestion that the connection between members of the Finance Committee and certain of the banks led to any kind of favoritism being shown to those banks. The deposits were never made at anything less than the best rate of interest obtainable at the time they were made. There was no hesitation in removing a deposit from one bank to another if ad-

vantage could be secured in so doing ....But we think it advisable to call the attention of the Secretary of State to the importance of avoiding as far as possible all occasion for criticism of this nature.

A scrutiny of the large advances made and the low rates of interests earned,* as metioned on pages 136 and 137, would, however, show how very little the above exoneration is justified.

In regard to the exclusion of Indian experience from the Finance Committee of the India Council, the Royal Commissioners appropriately remark :—

Recent political and social changes in India have led to an increasingly close scrutiny in India of the Government's financial administration, and have added very greatly to the amount and the importance of the criticisms which are directed in India against that administration. Moreover, these criticisms now find expression in the form of questions in the Legislative Council which have to be answered by the Government representatives. It appears to us to be hardly compatible with the new conditions in India that just at this time an alteration should have been made in the composition of the India Council and the Finance Committee, involving the omission therefrom of any representation of Indian financial experience, whether official or non-official. The result has been to give the representation of London City experience a position of undue prominence in the Finance Committee, which is, in our opinion, undesirable.

Taking the present mood of the Indian people on this subject into consideration and weighing it with the conditions of the India Office Finance Committee organisation, the Commission are of opinion that the ideal constitution of the Finance Committee would be one containing three members with financial experience, representing :—

(*a*) Indian Official Finance;
(*b*) Indian Banking and Commerce;
(*c*) The London money market.

With a committee constituted as above, and the principle of the above recommendations respected in spirit, the Indian opinion would, probably, be perfectly at peace.

In connection with the permanent staff of the India Office, it may be interesting to mention that at the head

* Average rate of interest earned on loans given to approved borrowers;—1910—2·84 %; 1911—2·40 %; 1912—3·16 %; 1913—3·97 %.

of the Financial Department, but subordinate to the Permanent Under Secretary of State and to the Assistant Under Secretary, is the Financial Secretary, who is responsible for the financial work of the office. The Commission is of opinion that a system which throws the whole burden of supplying special financial knowledge and criticism upon one single Secretary is undesirable; and it, therefore, suggests :—

Either (1) that the Under Secretary of State or the Assistant Under Secretary should have financial experience; or (2) that there should be two Assistant Under Secretaries, of whom one should have had financial training. As between these alternatives we are unwilling to express an opinion, believing that the choice must depend largely upon the varying circumstances of the time and on the material at the disposal of the Secretary of State. We are content to record our opinion that, in one or other of these ways, the burden of work and responsibility which previously fell upon the Financial Secretary should continue to be diminished, as it is under the existing arrangement. It has also been suggested that the Financial Department should be strengthened by the appointment of a second Financial Secretary, to whom business of a technically financial character should be specially allotted. We bring this suggestion to the attention of the Secretary of State.

The pecuniary value to India of the efficient performance of the financial business of the India Office is very great and would amply justify any extra cost in salaries that might arise from the adoption of our recommendations.

State or Central Bank.

In 1900–1902 a proposal was put forward before the Government of India for the amalgamation of the three Presidency Banks and the enlargement of their capital by a substantial amount on the condition that the Government would hand over to the amalgamated Bank the management of the Paper Currency and a large portion of the public balances; subsequent proposals have, with more or less variation, revolved round these cardinal principles. Several difficulties arose in the framing of a working constitution for a State Bank for India, such as, the combination of ultimate Government responsibility with day-to-day independence for the authorities of the Bank; the preservation of unimpaired authority in the executive officers of the Bank, whose duty it would be to take a broad and not always a purely commercial

view of policy, and at the same time to make use of the commercial instincts and commercial knowledge of representatives of the shareholders; and the maintenance in the day-to-day management of the Bank of that high element of decentralisation which is now possessed by the three Banks. For, as the Government of India wrote to the Secretary of State (January, 18, 1900) "nothing would "be more unwise than to discard the valuable local "knowledge, skill and experience of the existing directorates and managements of the Presidency Banks."

There were some other points also, such as the status of the Bank in London, the method of regulation of the note issue, the division of profits between the shareholders and the Government, which required close examination and satisfactory solution.

The attention of the Royal Commission was invited to the feeling prevalent in England and in India in regard to this question. In the memorandum prepared by Mr. L. Abrahams on the subject of a State Bank in India, it was represented that the difficulties and inconveniences which arise in the management of general balances and of the Paper Currency and Gold Standard Reserves are largely contingent on the absence of a large central banking institution competent to hold and manage them and to transact for Government other business naturally falling within the province of the Government's banker, such as remittance. The lack of such an institution rendered the position of the Government, to a more or less extent, unusual and anomalous. The Royal Commissioners examined Mr. Lionel Abraham's proposals, and at the request of his colleagues, Professor John Maynard Keynes thoroughly examined and sifted the evidence and facts available on the subject and drew up, in collaboration with Sir Ernest Cable, a memorandum on proposals for the establishment of a State Bank in India. This memorandum is materially different from the earlier

conceptions of the proposal. It lays down an outline constitution, so far as concerns the relation of the Bank to Government, the powers of the shareholders, and decentralisation, in the following manner:

1. The supreme direction of the Imperial Bank of India shall be vested in a Central Board of three members, consisting of the Governor of the Bank (who shall be Chairman), the Deputy Governor, and a representative of Government, together with three or more Assessors.*

2. The Governor shall be appointed for periods of five years (subject to age limit) by the King on the recommendation of the Secretary of State, and shall be removable in like manner. He shall be eligible for re-appointment. The salary of the Governor shall be Rs. 1,00,000 per annum †.

3. The representative of Government shall be appointed by the Viceroy, and shall be, in general, the Financial Member of the Viceroy's Council, the Member for Commerce and Industry, the Secretary from the department of one of them, or the Comptroller of Currency.

4. The Assessors shall be the Managers of the three Presidency Head Offices and of such other Head Offices as may be created hereafter, or their Deputies. The Assessors shall have the right to attend any meeting of the Central Board and to lay their views before it, but shall not vote. The Central Board shall also have the right to summon any of the Assessors to attendance.

5. The Deputy Governor of the Bank, and Managers of the Presidency Head Offices, who shall all be of the same status and receive salaries of Rs. 60,000† shall be

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* "It may be added in this connection that the Governor and Deputy Governor of the Bank should invariably be persons of commercial or banking, not of administrative or official, experience, and should be appointed, so far as may be possible or convenient, from the staffs of the Presidency Offices. Though it would not be wise to lay down any rule or principle on the matter, and while it might be an advantagous thing to introduce from time to time officers whose banking experience had lain elsewhere, the Governorship of the Bank should be a position to which the leading officials of the Presidency Offices could reasonably look forward as a possible prize. It might, perhaps, increase public confidence in the non-official character of the Bank's management and in the Government's intentions, if it were definitely laid down that members of the English or the Indian Civil Service were ineligible for appointment as officers of the Bank."—*Annexe to the Royal Commission's Report, page 63.*

† These figures are put forward very tentatively, to suggest the status of the Officers affected.

appointed by the Viceroy on the nomination of the Governor of the Bank and of the Government representative on the Central Board. But the appointment of a Manager to a Presidency Head Office shall be subject to the approval of the Presidency Board (including representatives of the shareholders) of the Head Office in question.

6. Within the limits of the Bank Act the Central Board shall have absolute authority, and the signature of the Governor supported by a majority vote of the Board shall be legally binding upon the Bank, save that the representative of the Government shall have discretionary power (for use in emergencies only) to suspend the carrying into effect of any decision until it has been reported to the Viceroy, with whom shall lie an ultimate right of veto.

7. The Central Board, which will have no direct dealings with the public, shall have its offices and establishment located at Delhi (or Calcutta). Its members will keep in touch with the chief commercial centres of the country, partly by the attendance from time to time of the Assessors, and partly by touring on the part of the Governor or his Deputy.

8. All transactions between the Bank and the public in India shall be under the authority of one or other of the Head Offices. In the first instance, Presidency Head Offices shall be established at Calcutta, Bombay and Madras, and the spheres of influence of these Head Offices shall be the same as those of the existing Presidency Banks. Ceylon shall, as at present, be within the sphere of the Madras Head Office.

9. Each Head Office shall be under the direction of a Presidency Board, consisting of the Manager (who shall be chairman and have the casting vote), the Deputy Manager, a representative of the Local Government, and three or four unofficial members.

10. The unofficial members shall be elected by the shareholders on the local register of each Presidency from amongst their own number.

11. Any business, within the limits of the Bank Act, and not contrary to the express instructions of the Central Board, entered into by a Presidency Board, shall be legally binding on the Bank.

12. Although the Central Board shall have authority to issue instructions, to which the Presidency Board shall conform, on all matters, nevertheless in general, and failing special prior instructions to the contrary, a Presidency Board shall have entire discretion to transact on its own authority all business of the following descriptions (subject to such restrictions as regards the maximum and minimum rates of interest as the Central Board may from time to time impose in respect of the several classes of business enumerated below) :—

(i) To discount Indian trade bills, maturing within a maximum period of six months.

(ii) To rediscount sterling trade bills, bearing the endorsement of another bank.

(iii) To make interest bearing loans for periods not exceeding six months against such kind of security as is permitted by the Bank Act.

(iv) To buy and sell in India gold bullion and such bonds and securities as may be dealt in according to the provisions of the Bank Act.

(v) To provide trade remittance for customers to all parts of India, and private remittance to London.

(vi) To accept interest and non-interest bearing deposits.

(vii) To accept valuable goods for safe keeping.

(viii) To open, staff, and control branch banks at any place within the Presidency Board's sphere of influence.

The duties of the Central Board would be chiefly concerned with bank rate, with the remittance of funds from one Presidency to another, and between India and London, and with questions of general policy. All questions of individual credit would be ordinarily within the discretion of the Presidency Boards. The general magnitude of the transactions of any kind must come within the cognisance and ultimate control of the central Board. But the nature of the individual transactions making up the total, in general, should not. In all matters relating to individual credit the Presidency Boards would possess the same independence as each Presidency Bank has now. The Presidency Boards would also control the movement of funds within their own presidency.

The Manager of a Presidency Bank may attend the Central Board in person on occasions when he can conveniently be absent from his own office, and when he specially desires to place his views or proposals before the Central Board. The Central Board, on its part, would convene from time to time meetings at which all the Presidency Managers would be, if possible, present. While the Central Board's offices and establishment must be fixed at one place, there is no reason why the Board itself should not meet from time to time, if it should be found convenient, at various centres.

It may be remarked that a State Bank constituted as above relegates the existing Presidency Banks to a position of insignificance and dependence which their shareholders could scarcely accept with any regard to their self-respect. The method of the appointment suggested above for the Governor would result,in effect, in his being reckoned as a Government official. The Bank should lie altogether outside of the ordinary Government machine. When the Government reserves to itself the right of veto in all matters and of direct representation by means of

its official representatives on the Imperial and Presidency Boards of Directors its position is secure and safe. It is therefore to the shareholders of the Presidency Banks that the Governor and Deputy Governor ought ultimately to account for their conduct. But not being dependent on the good will of the shareholders of the Presidency Banks for the retention of his services, the Governor would be unamenable to their influence. Human nature being what it is, absolute independence may engender a spirit of irresponsibleness which, if produced, may some day cause incalculable harm to the interests of the shareholders. Further, the policy of placing the Governor of the State Bank and the Manager, in the case of Presidency Banks, at the head of the shareholder's representatives and confining the latter's duties to mere consultative functions is one the soundness of which may reasonably be doubted.

It is laid down in Professor Keynes' scheme that half of each of the Presidency Boards will be constituted from representatives of the shareholders and the Managers of the Presidency Head Offices would be appointed by the approval of these representatives. The shareholders will have no direct representation on the Central Board; they may lay their views before it through their Presidency Managers. The enhanced prestige and power derived in consequence of the custody and management of note issue would, no doubt, be a great privilege, but it is a debatable question whether it would be a sufficient compensation to the shareholders for the relegation of their present controlling position to one of imbecile lookers-on.

In regard to the capitalisation of the Bank, the scheme lays down that the nucleus is to be obtained by the amalgamation of capital and reserves of the three Presidency Banks. It is considered inadvisable for the Government to subscribe any part of the capital for the Bank itself.

The scheme proceeds: the existing assets of the Bank will be accurately valued. It is believed that as they stand in the books of the Bank at present, the assets are almost certainly undervalued. The reserves of each Bank will be levelled so as to bear the same ratio to their respective capitals. This ought to present no practical difficulty, as the ratios of reserves to capital in the three Banks happen to be very nearly equal. Any difference will be adjusted by reducing reserves and paying away the excess to the shareholders, or by increasing the reserves out of earnings hereafter. One share will be issued in the State Bank for each share held in the Presidency Banks. It would be advisable not to add the reserves of the existing Banks to the capital and distribute them by way of a new issue of shares. It would weaken the balance-sheet of the new Bank and create an unwieldy nominal capital on which to pay dividends. If increase of capital is considered desirable, new capital might be issued for Rs. 3,75,00,000 (doubling the existing capital) of which only twenty per cent. may be called up. The offer of such shares to the existing shareholders *pro rata* at a premium of (say) 100 per cent. would be a valuable concession to them, or the issue may even be made at par if it is considered politic to offer great inducements. Power could be taken in the Bank Act to issue 5 per cent. preference shares to a considerable amount. It may be mentioned, however, that there is no necessity for increasing the capital, as with the control of the paper currency and of the Government's cash balances the resources of the Bank would be very great.

The question of the division of profits between the shareholders and the Government raised a problem of a good deal of difficulty. The management of note issue and of the Government balances would provide the Bank with a considerable source of revenue, likely to grow in the

future, in the fruits of which the Government must obviously share.

It has been suggested in Professor Keynes' scheme that the Imperial Bank of India should perform, without special remuneration, the duties connected with the purchase of gold bullion, issue of gold and silver, management of the note issue and custody of the Paper Currency Reserve; also, to manage the Government debt in India, to accept payments and make disbursements on behalf of the Government (Imperial and Local) at all places where the Bank has set up a branch, and it should be a declared policy of the Bank to open branches, as rapidly as opportunity offers and the necessary staff and organisation become available, at most places where there is now a District Treasury.

The Bank should pay to the Government annually a sum equal to the present income from the sterling investments now in the Paper Currency Reserve and from such investments as are proposed by the Commissioners to be transferred to it from the Gold Standard Reserve in exchange for gold.

The net profits of the Bank, after due allowance for depreciation and preference dividend (if any), are recommended to be dealt with as follows:—

(*a*)—a dividend of ten per cent. to shareholders.

(*b*)—of the remainder, two-fifths to be transferred to the reserve when this remainder is not more than 20 per cent. of the capital, and one-third when it exceeds 20 per cent.

(*c*)—the balance should accrue to the shareholders up to an additional 5 per cent. of their capital, and thereafter to the shareholders in the proportion one-third, and to the Government in the proportion two-thirds,

At present the net profits of the Presidency Banks are approximately 17 per cent., of which 14 per cent. is divided and 3 per cent. placed to reserve.

The effect of the proposed provisions would be seen from the following table (in percentages of the capital):—

Net profits, per cent.	*To shareholders.*	*To Reserve.*	*To Government.*
10	10	..	..
12	11 1/5	4/5	..
15	13	2	..
16	13 3/5	2 2/5	..
18	14 4/5	3 1/5	..
20	15 1/3	4	2/3
22	15 11/15	4 4/5	1 7/15
25	16 1/3	6	2 2/3
28	16 14/15	7 1/5	3 13/15
30	17 1/3	8	4 2/3

Provision should be made for an increased proportion to Government in the event of net profits ever exceeding 30 per cent.

There would be conditions in the Bank Act providing for the revision of relations between the shareholders and the Government. The Act may, the scheme says, be reviewed at intervals of ten years, and should be subject to equitable revision at the option of Government, or at shorter intervals with the concurrence of the shareholders. At each decennial revision the Government should be free to take over the whole goodwill and assets (including the reserve) of the Bank at 25 years' purchase of the annual average of the sums payable to the shareholders in the five years preceding. Professor Keynes appropriately remarks:

The first provision may seem to place the shareholders somewhat at the mercy of the future good faith of the Government. But it is difficult to limit the authority of a sovereign power. Every institution, however purely private, is ultimately dependent on the Government's equitable regard for existing interests. From a Government which was deliberately prepared to revise the charter inequitably, even a Presidency Bank would hardly be safe.

A reserve may, if possible, be created out of profits for the equalisation of dividends, as profits in banking are likely to be very fluctuating.

The rules proposed for governing the Indian Currency Note issue provide that up to 40 per cent. of the gross circulation of notes (which includes the notes held by the Bank itself in reserve) may be held in a fiduciary form without payment of tax, the balance being held in cash (gold or rupees); or, up to 60 per cent. may be held in a fiduciary form, on payment of a tax to the Government at the rate of 5 per cent. per annum on the excess of the fiduciary issue above 40 per cent. of the total circulation. The proportion of cash should never fall below 40 per cent. save that the Secretary of State in Council shall have authority, in emergency, to suspend the provision of the Bank Act which enjoins this.

In a country like India where the use of currency notes is still in its infancy the above percentages for fiduciary holdings (*i.e.*, investment of the Currency Reserve in gilt-edged securities) are far too high. I have mentioned on pages 110-13 of the book some of the reasons why, in my opinion, the fiduciary portion of the Currency Reserve ought not to rise above 33 per cent. of the circulation. If it is allowed to work up higher, any monetary upheaval causing more than the ordinary pressure on the currency offices for the encashment of notes might cause inconvenience and trouble to the Bank authorities and may even put them in danger of having to apply for the suspension of the Bank Act. Except in cases of war, recourse to such a measure would be likely to engender panic and hamper the growth of the note issue. The force of these observations would be apparent when it is remembered that the existing fiduciary issue has been only 24 per cent. of the average gross and 26 per cent. of the minimum gross circulation in 1911-12; and the corresponding figures

(estimated) in 1912-13 were 21 per cent. and 24 per cent. It has been urged that in grave emergencies, when the Government's guarantee for encashment of the notes may possibly be required, the coin in the Gold Standard Reserve would provide a temporary bulwark, pending the realisation of the sterling securities. To cast glances on the Gold Standard Reserve for covering the consequences of indiscretions in fixing the amount of the fiduciary portion of the Currency Reserve is a line of policy that should never be allowed to come into play. Even at the risk of a diminished revenue from the currency reserve investments, the only right course would undoubtedly be to keep the portion of coin so ample as to meet an acute crisis.

As regards the form of the fiduciary issue, at present 10 crores are invested in the Government of India Promissory Notes and 4 crores in Consols. It has been suggested that the proportion of foreign sterling securities should be raised to 10 crores. This would make 20 crores in all of permanent investment, and this is the highest figure at which, it is thought, the permanent investment ought to stand at present.

I consider even this is too high a figure and that the permanent investments may remain at 14 crores as at present.

For the fluctuating part of the fiduciary reserve, bills of exchange having two good names to them, and that have passed through some Bank, would be preferable if they could be obtained.

The scheme further mentions that :—

(i) The Government promissory notes would be cancelled and replaced, in the books of the Bank, by a Government book debt bearing no interest.

(ii) The consols would be taken over at market value. The initial book value should, in the event of subsequent

depreciation, be written down to market value annually but should not be written up, in the event of appreciation, until market value exceeds book value by 10 per cent., and then only by the excess beyond 10 per cent.

(iii) The approved securities, accepted as fiduciary reserve, would be calculated with a margin of 5 per cent. The bills of exchange would be taken at par, less rebate.

(iv) In the published accounts of the Bank, a distinction would be made between the Issue and the Banking departments in the same way as is done in the case of the Issue department of the Bank of England.

Though the management of the paper currency would rest with the State Bank, it is thought that the notes must remain Government notes in the sense that the Government, in addition to the Bank, would guarantee their conversion into coin. In this case they could preserve their present form and appearance unchanged, *i.e.*, they could remain, as they are at present, Government promissory notes payable on demand at certain places in legal tender money. This would allay suspicion without laying on the Government any real additional burden. For if the Bank were, by a violent chance, to get into difficulties, there could not be the least doubt that the Government would have to maintain the solvency of the note issue whether they had formally promised to do so or not.

As the Government would guarantee the note issue, the securities and cash belonging or pledged to the Issue department of the State Bank would become their property, so far as required for meeting liabilities on the notes, in the event of difficulties.

The notes would, of course, be legal tender and will be accepted in payment by all the branches of the Bank, and also in all the Government treasuries in payment of the monies due to the Government.

It is stated that the restrictions of the circle system should, as far as practicable, be dispensed with. There should be a legal right of encashment of notes of all denominations at a small number of prescribed offices of the Bank, and all other offices, though under no legal obligation, should be authorised to encash notes whenever they can do so without embarrassment.

The question of the relation of the State Bank with other banking institutions has also been dealt with. It is suggested that the State Bank ought to aim to the greatest possible extent at rediscount business. It should accept only such trade bills as have passed through the hands of another Bank or shroff or marwari of high standing and have received their endorsements. The State Bank would have on its list certain Banks and private Indian financiers of high standing who would be among its regular customers and for whom in general it would be prepared to rediscount freely. By this means the business of State Bank would not compete with other Banks. The power of rediscount might possibly aid in the development of Indian joint-stock Banks on sounder lines than hitherto. For, on admitting a Bank to the rediscount list, the local Manager of the Presidency Bank may require, from time to time, to examine somewhat carefully, in confidence, the Bank's position; and the risk of losing its position on the re-discount list might act, to some extent, as a deterrent to rash banking.

Particular stress has been laid on preventing the State Bank from competing with the Exchange Banks in attracting deposits in London, as it would rouse opposition.

The Bank would, however, be free to carry out the Secretary of State's remittance and to hold balances in London and invest them in the London money market. The Bank would also be free in providing private remittance on London for its Indian customers.

The Secretary of State would continue to do his ordinary banking business with the Bank of England and to maintain a balance there ; and it would be the business of the State Bank of India to keep him in funds. The method of effecting remittance would be by selling drafts on India in London and by buying sterling bills in India, but to safeguard the business of the other Banks, the State Bank should be precluded from buying sterling bills in India, except from other Banks.

The method outlined above would be more easy of a favorable explanation to the public. At present, the Secretary of State receives money from the Exchange banks and others in London by the sale of bills on India and lends the same money again, until such time as he has need of it for his disbursements, either to the Exchange Banks themselves or to other constituents of the London money market. The State Bank might possibly find it advantageous to rediscount sterling bills for the Exchange Banks in India and hold the bills until the money was actually wanted by the Secretary of State. The floating sterling resources, or the bulk of it, could thus be kept in India and still directly benefit India's foreign trade, instead of assisting in a very slight and indirect way through general help given to the London money market. No one could then criticise, as is now done, that India's money was being diverted away to purposes wholly unconnected with India. The money would also earn higher rates of interest in India. If it, at any time, turned out that the money was wanted by the Secretary of State before the bills fell due, they could easily be re-discounted at the Bank of England.

The London Office of the State Bank should, it has been suggested, have no direct dealings as a banker with the general public and in its London re-discount business its operations should be restricted to the Bank of England.

The Bank will, of course, manage the Government's sterling and rupee debt in England in the same way as it will do so in India.

The scheme lays down that the management of the London office will be vested in a Board which, unlike India, will not include the Manager of the London office, but will consist of—

(1)—Financial Secretary at the India Office, or the permanent Under Secretary or Assistant Under Secretary when either of these is possessed of financial experience.

(2)—A Member of the Secretary of State's Council.

(3)—A representative of one of the larger London mercantile houses concerned in the Indian trade.

(4 & 5)—Two members of financial or banking experience (one of whom might be, in general, primarily of Indian experience and the other of London experience).

The London Board would thus, to a great extent, be like the present Finance Committee of the Secretary of State's Council and may be expected to be in such a close touch with the India Office as to form in reality only an adjunct to the India Office.

As Government banker the State Bank will hold, without payment of interest, the balances now held in the Reserve Treasuries and in London, with the exception of an emergency reserve of, say, 1½ or 2 crores which would be retained by the Government of India, and of that part of the London balances held directly in the name of the Secretary of State at the Bank of England. According to some private understanding that has existed between the India office and the Bank of England, the floating balances of the Secretary of State at the said Bank have not fallen below 75 lakhs. Very often they range anywhere between one and two crores of rupees.

The management of the Mint and the custody of the Gold Standard Reserve would not be entrusted to the State Bank. But when the Gold Standard Reserve is brought into play for the support of exchange or to redeem the guarantee of the Government for the encashment of the currency notes, the Bank would act, under the orders of Government, as the Government's agent in the matter.

In considering the question of the general advantages of a State Bank, particular regard has been paid to the objections made and criticisms levelled against the Government, in regard to the investment of large sums of India's money in the London money market, and it is stated that by the establishment of a State banking institution " a "buffer is placed between the Secretary of State and vexa-"tious criticism on small details of financial business."

The following significant observations made by Professor John Maynard Keynes place the situation in a much clearer light:

As regards the Secretary of State's exposure to pressure or parliamentary criticism of an undesirable kind, the creation of a State Bank would, without question, improve and strengthen his position. Recent experience shows that he cannot, under the present system, resist cross-examination on minute details of financial management. If arrangements are introduced for loans from cash balances (in London?) and for some degree of regulation of the currency reserve by discretion, will he not be liable for all kinds of questions in Parliament on details of executive policy.

The State Bank would have a high degree of independence; and there would be numerous questions to which the Secretary of State's proper answer would be that it was entirely a matter for the Bank. He would never admit, for example, the faintest degree of responsibility for the precise level of the Bank rate at a particular moment. The Secretary of State would be behind the Bank, but his authority would only come into play on rare and important occasions. On important changes of policy and on alterations of clauses in the Bank Act, the Secretary of State would have the last word and with it the responsibility. If over a period of time there were a widespread feeling that the regular administration of the Bank was ill-conducted, it would be his duty to grant an enquiry and to act in the light of its report. But for the ordinary daily work of the Bank he would necessarily disclaim responsibility to a far completer extent than is at present possible in the case of any of the financial business now conducted by the Govern-

ment. The method of appointment suggested above of the Governor and Deputy Governor is intended not to make them Government Officials, but to place them in a positon of considerable independence. A State Bank would certainly act as a buffer of no little importance between the Secretary of State and external pressure of an undesirable kind.*

I have given above a brief summary of the proposals now before the Government of India in regard to the establishment of a State Bank, as drawn-up by Professor John Maynard Keynes, after a thorough study of the subject and sifting of the previous proposals and materials available. The Commissioners in their report regard this question as one of great importance to India, which deserves careful and early consideration of the Secretary of State and the Government of India, and they suggest the appointment for this purpose of a small expert body, representative both of official and non-official experience, to study the whole question in India in consultation with the persons and bodies primarily interested, such as the Presidency Banks, and either to pronounce definitely against the desirability of the establishment of a State or Central Bank in India at the present time, or to submit to the authorities a concrete scheme for the establishment of such a Bank fully worked out in all its details and capable of immediate application.

I have referred, in passing, to some of the more glaring incongruities and anomalies of the proposed scheme. A detailed consideration of the whole scheme would only be possible when the proposals, in cut and dried form, are placed before the public. The present scheme discusses the question in its various aspects and defines the landmarks which require careful consideration at the hands of the would-be examiners of the proposed scheme. Its recommendations, where made, are of a vague and tentative character.

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* Extract from *annexe* to the Report of Royal Commission on Indian Finance and Currency, 1914, pages 61-62.

There is, however, little doubt that if the underlying features of the final scheme run on the same lines as govern the present proposals, the project is not likely to receive any widespread support or approval. The tendency appears to be to officialise the State Bank to such a thorough extent as to make the position of the shareholders, and of the public, one of imbecile lookers-on. Reading between the lines one can hardly fail to discern that the anxiety centres more on the question of how to screen the Secretary of State in Parliament from inconvenient interpellations and embarrassing situations arising from a faulty system of the management of Indian funds and reserves in London, than on a genuine desire to take the people of India into closer confidence in the management and disposal of the reservoirs of monetary resources under the control and custody of the Government and to extend its benefits to the people of India at large with a liberal and bountiful hand.

The scheme is a large one and all of its consequences cannot be ascertained and predicted with certainty. The country and the Government should not embark on it till it is thoroughly examined and re-examined and threshed out in all its details and all possible chances of striking out on hazardous *terra incognita*, which past experience and skill can indicate, are eliminated. If the principle, *viz.*, the right of the people to share in the enjoyment of the benefits arising from accumulation of huge funds in the Government's possession beyond current requirements and after providing for reasonable contingencies, is recognised, the proposals should tend to render the opportunities for such enjoyment within easy reach and not to make the attainment thereof merely a shadow in reality.

I do, however, consider that the scheme is deserving of fullest consideration and a small expert body may well be

appointed to examine the same. In the formation of such a body, I hope, the question of the representation of non-official Indian and European opinion will be given fullest consideration and ample opportunities will be afforded to the public in India to lay their views in the matter before such a committee. The hasty and touch-me-not attitude which, from the Indian point of view, has been a characteristic of the proceedings of the Royal Commission on Indian Finance and Currency will, it is hoped, not mark the work of the proposed committee.

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ALAKH DHARI.

January 1915.

THE GROWTH OF CURRENCY ORGANISATIONS IN INDIA.

CHAPTER I.

The Rise and Fall of the Rupee.

It is imagined by a not inconsiderable number of persons that Silver only has been the currency of India from time immemorial and that the natives are attached to it. This is, however, entirely erroneous. Silver was first forced upon the entire native population by the Company in 1818, and it was only in 1853 that Silver has been the exclusive currency of India in consequence of Lord Dalhousie demonetising Gold. The natives themselves greatly prefer their ancient standard, Gold. *Professor Henry Dunning Macleod, M.A.*

Early History.

The earliest records of the Indian Rupee, as it is now current, are traceable from Sir James Stewart's important work entitled "The Principles of Money applied to the Present State of the Coin of Bengal", published in 1772. From a perusal of this work it appears that when the East India Company entered on its career of commerce, and latter on of conquest, in India, it found gold and silver coins equally current in Northern India. Gold circulated freely side by side with Silver, but there was mostly no fixed legal ratio between the two. And, indeed, none could very well exist, for all princes and chieftains, and even governors, endeavoured to issue every one his own coinage. In Southern India, gold coins formed the common currency of the people, that is to say, in so far as coins were actually used as measure of value and as a medium for the exchange of commodities.

An approximate census of coins revealed that no less than 994 different kinds of gold and silver coins—of differ-

ent weights and different degrees of fineness —were current. Quite naturally, their values were constantly varying. People themselves could not often decide the value of the coins one held and in the settlement of payments the services of *Sarrafs* (professional money changers) were requisitioned. The *Sarrafs* acted as appraisers of money and declared the value of a coin.

The East India Company found this state of affairs intolerable and a great impediment to the extension of their trade. Their first attempt to remedy this defect was by the simultaneous issue of gold and silver coins,—bearing their own stamp, of a fixed standard of weight and fineness and bearing a fixed legal ratio between them. The fluctuation in the market value of the two metals does not seem to have been taken into consideration or allowed for. The arrangement, therefore, produced difficulty in actual practice. The East India Company, thereupon, referred the whole matter of the Indian coinage to Sir James Stewart who was regarded as one of the most eminent economists of his time.

In his work, which is a masterly treatise on coinage, he showed that it was impossible to maintain unlimited quantities of gold and silver coins in circulation together at a fixed legal ratio between the coins different from the actual market ratio of the metals. He, therefore, recommended that the legal ratio between the coins should strictly conform to the relative market value of the metals.

1806.
Lord Liverpool's Advice.

In 1806, Lord Liverpool wrote his famous treatise on the Coins of the Realm. The East India Company, tired in their attempts to maintain the equilibrium of currency in India on an impracticable bimetallic basis, availed themselves of the opportunity presented by the issue of this treatise, to address a minute to the Governments of Bengal and Madras declaring their entire adherence to the principles enunciated by Lord Liverpool, *viz.*, that one metal

only should be made the standard as unlimited Legal Tender, but that other metals might be coined and made current at their market value in reference to the standard.

But, unfortunately, the Government of India selected Silver as the standard. In a Despatch dated 25th April, 1806, to the Governments of Bengal and Madras, the Court of Directors of the East India Company, however, took care to add:

It is not by any means our wish to introduce a silver currency to the exclusion of the gold, where the latter is the general measure of value, any more than to force a gold coin where silver is the genereal measure of value.

1818.

The Rupee made Legal Tender.

The Government did not stick to the above promise for long, for we find that, in 1818, it issued a new coinage of Gold and Silver. The ratio between the two was changed to bring the coins in conformity with the relative market value of the metals. These silver and gold coins were declared as equal Legal Tender throughout the territories of the East India Company.

The effect of this change was that, along with the rest of the country, Silver Rupee was for the first time forced in the Madras Presidency "where Gold coins had hitherto "been the principal currency and money of account".*

1835.

A further wrong step.

The Indian Rupee in its present form and size was for the first time coined in 1835. The weight was 180 grains troy,—165 grains of which consisted of pure Silver and 15 grains of alloy, that is to say of eleven-twelfth fineness. This standard of weight and fineness has since been retained and is prevalent to-day.

The new Silver Rupee was declared to be the sole Legal Tender and it was enacted that "no gold coin shall "henceforward be a legal tender of payment in any of the "territories of the East India Company."

*Extract from para 4 of the Report of the Indian Currency Commission, 1899.

In actual practice, however, this law remained inoperative. Gold Mohurs of the same weight and fineness as the Silver Rupee, were coined at the Indian Mints and "were allowed to pass current, and be received at the "Public Treasuries at their market value in Silver". By an Act of 1835, the coining of Gold Mohurs (or 15 Rupee gold pieces) was authorised and by a notification dated 13th January, 1841, the officers in charge of public treasuries were authorised "freely to receive these coins "at the rates until further orders respectively denoted "by the denomination of the pieces." As the Gold Mohur and the Silver Rupee were then of identical weight and fineness, this notification represented a ratio of 15 to 1 between gold and silver.

1852-53.
Gold Demonetised.

There does not appear to have been any development of importance in the Indian Currency system down to the year 1852-53, when the Government of Lord Dalhousie was alarmed at the large discoveries of gold. "The extensive discoveries of Gold in Australia"—so runs the Despatch of 1852—"having had the effect of diminishing its value re-"latively to Silver, holders of gold coin have naturally "availed themselves of the opportunity of obtaining, at "Government Treasuries, a larger price in silver than they "could obtain in the market".

The Government of India, as a result of the above decision, issued a Notification, on the 25th December, 1852 declaring that on and after January 1, 1853, "no gold "coin will be received on account of payments due, or in "any way to be made, to the Government in any public "treasury within the territories of the East India Com-"pany."

Thus for the first time in the annals of India, Silver Currency became the sole and the only Legal Tender in the country.

1864.

Revulsion in favour of Gold.

The Notification of 25th December, 1852, was withdrawn in 1864, when Government treasuries were again permitted to receive Gold Sovereigns as the equivalent of ten rupees. This rate was raised to ten rupees and four annas on 28th October, 1868.

1876.

First Thoughts.

The Bengal Chamber of Commerce and the Calcutta Trades Association, alarmed at the fall in the value of Silver, memorialised His Excellency the Viceroy of India urging the temporary suspension of the compulsory coinage of Silver by the Indian Mints.

The Government of India, in their reply of February 9, 1877, said:

> The value of no substance can serve as a standard measure of value unless its use as the material of legal-tender currency is freely admitted. If, therefore, the free coinage of Silver on fixed conditions were disallowed in India, Silver would no longer be the standard of value of India, but another standard would be substituted, namely, the monopoly value of the existing stock of rupees tempered by any additions made to it by the Government or illicitly. If no such additions were made, the value of the Rupee would gradually but surely rise.
>
> The stamp of a properly regulated mint, such as the Indian Mints, adds nothing except the cost of manufacture and seigniorage to the value of the metal on which it is impressed, but only certifies to its weight and purity.
>
> A sound system of currency must be automatic or self-regulating. No civilised Government can undertake to determine from time to time by how much the legal-tender currency should be increased or decreased, nor would it be justified in leaving the community without a fixed metallic standard of value even for a short time. It is a mistake to suppose that any European nation has rejected Silver as a standard of value without substituting Gold.

The Government of India, accordingly, decided that "up to the present there is no sufficient ground for interfering with the standard of value,"

1878-79.

The Treasury's Brave Stand.

The currency system began to show signs of increasing unstability, and was a source of constant anxiety to

Government, as silver bullion continued to fall in value. The Government of India, finding their situation increasingly embarrassing, addressed, in 1878, a despatch to the Secretary of State for India in which they proposed :

(1) that a gold standard and gold currency should be introduced into India ;

(2) that the weight of Silver in the rupee should be increased ;

and, it was further proposed to limit the free coinage of Silver in the Indian Mints.*

Lord Cranbrook, then Secretary of State, forwarded this despatch, without expressing any opinion of his own, to Sir Stafford Northcote, Chancellor of Exchequer, who referred the proposals to a Committee consisting of Sir Louis Mallet, Mr. Edward Stanhope, M.P., Sir Thomas Seccombe, Sir Thomas (afterwards Lord) Farrer, Sir Reginald Welby, Mr. (afterwards Sir Robert) Griffen and Mr. Arthur Balfour, M.P.,—all of whom, after a careful examination of the proposals contained in the despatch, reported that "they were unanimously of opinion that they "could not recommend them for the sanction of Her "Majesty's Government."

In their reply, which is dated 24th November, 1879, the Lords Commissioners of the Treasury, addressing the Secretary of State for India, state their objections to, and reasons of variance with, the Government of India's proposals, thus :—

The Government of India propose that the free coinage of Silver shall be restricted, so that the Rupee shall no longer remain, as at present, simply a piece of silver of a given weight and fineness, but shall in addition to these qualities, bear a fixed relative value to the English Sovereign. . . . . . The proposal appears to be open to those objections to a token currency which have

*It may be noted that the Indian Mints had all along been open to unrestricted coinage, that is, any Native or Foreigner could tender bullion to the Mints to be coined there. Every person had a right to present bullion in any form to the Mint authorities in order to have the same assayed, melted down and coined with all convenient speed without any defalcation on payment of a nominal charge for manufacture and seigniorage.

It was not till 1878 that the idea of closing the Indian Mints to free coinage of Gold and Silver first found expression ; and eventually, in 1893, it was put into force. The evident reason for this course was the steady depreciation in the value of Silver, which put the Government, as one year succeeded another, into an ever greater hole.

long been recognised by all civilised nations, viz., that instead of being automatic, it must be "managed" by the Government, and that any such arrangement not only fails to keep a token currency at par, but exposes the Government which undertakes it to very serious difficulties and temptations.

It appears to my Lords that the Government of India, in making the present proposal, lay themselves open to the same criticisms as are made upon Governments which have depreciated their currencies. In general, the object of such Governments has been to diminish the amounts they have to pay to their creditors. In the present case the object of the Indian Government appears to be to increase the amount they have to receive from their tax-payers. My Lords fail to see any real difference in the character of the two transactions.

* * * * * *

My Lords need not point out that a change of the currency laws is one of the most difficult tasks which a Government can undertake, and that it is most unadvisable to legislate hastily and under the influence of the pressure of the moment, or of an apprehension of uncertain consequences, upon a subject so complicated in itself and so important to every individual of the community, in its bearing upon the transactions and obligations of daily life.

It is not proved that increase or readjustment of taxation must necessarily be the consequence of matters remaining as they are, for nothing is said about reduction of expenditure, and equilibrium between income and expenditure may be regained by economy of expenditure as well as by increase of taxation. Further, the cost of increase of salaries may be met or at least reduced by a careful revision of establishments.

A perusal of the despatch leads to the conclusion that the Government of India are especially anxious to put an end to the competition of silver against their own bills as a means of remittance to India. But my Lords must ask whether this would be more than a transfer of their own burden to other shoulders; if so, who would eventually bear the loss, and what would be the effect on the credit of the Government and on the commerce of India.

* * * * * *

If, on the other hand, it is the case that the value of the Rupee has fallen in India, and that it will be raised in India by the operation of the proposed plan, that plan is open to the objection that it alters every contract and every fixed payment in India.

This proposal is, in fact, contrary to the essential and well-established principle of the currency law of this country, which regards the current standard coin as a piece of a given metal of a certain weight and fineness, and which condemns as futile and mischievous every attempt to go behind this simple definition.

It is perfectly true as stated in the despatch that "the very essence of all laws relating to the currency has been to give fixity to the standard of value as far as it is possible," but it is no less true that, according to the principles which govern our currency system, the best and surest way, and, indeed, the only tried and known way, of giving this fixity is to adhere to the above definition of current

standard coin. A pound is a given quantity of gold, a rupee is a given quantity of silver; and any attempt to give those terms a different meaning is condemned by experience and authority.

If the present state of exchange be due to depreciation of silver, the Government scheme, if it succeeds, may relieve:

(1) the Indian Government from the inconvenience of a nominal re-adjustment of taxation in order to meet the loss by exchange on the home remittances.

(2) Civil servants and other Englishmen who are serving or working in India, and who desire to remit money to England.

(3) Englishmen who have money placed or invested in India which they wish to remit to England.

But this relief will be given at the expense of the Indian tax-payer, and with the effect of increasing every debt or fixed payment in India, including debts due by ryots to money-lenders; while its effect will be materially qualified, so far as the Government are concerned, by the enhancement of the public obligations in India, which have been contracted on a silver basis.

If, then, a case has been made out, which my Lords do not admit, for an alteration of the currency law of India, the particular alteration which the Government of India propose, could not, in the opinion of the Treasury, be entertained until the doubts and objections which have suggested themselves to my Lords are answered and removed. These objections are founded on principles which have been long and ably discussed, and which are now generally admitted by statesmen, and by writers of accepted authority, to lie at the root of the currency system.

* * * * * *

It is no light matter to accept innovations which must sap and undermine that system, and my Lords have, therefore, felt it their duty plainly—though they hope not inconsistently with the respect due to the Government of India—to express their conviction that the plan which had been referred to them for their observations is one which ought not to be sanctioned by Her Majesty's Government or by the Secretary of State.

1886.

In the Thick of Battle.

The difficulties of Indian finance were constantly increasing, and the Government of India, in a Despatch dated 2nd February, 1886, to the Home Government strongly urged that "the interests of British India imper-"atively demand that a determined effort should be made to "settle the silver question by international agreement." The intention was to fix the ratio between Gold and Silver on an international basis.

The despatch was forwarded by Lord Randolph Churchill, then Secretary of State for India, to the Treasury, which replied on 31st May, 1886, as follows :—

As a result of this review of the inconveniences caused by the depression in the value of silver, the Government of India express their opinion (cited above) * * yet there remains one thing which is not beyond the possibility of human control, and that is "the establishment of a fixed ratio between Gold and Silver." The proposition thus stated as an undoubted axiom is, however, one of the most disputable and disputed points in economic science. My Lords may, in passing, compare with this statement the declaration recorded by Mr. Goschen, Mr. Gibbs and Sir Thomas Seccombe, as the representatives of Her Majesty's Government at the International Monetary Conference of 1878, that "the establishment of a fixed ratio between Gold and Silver was utterly impracticable".

The Indian Government further express their belief that it is possible "to secure a stable ratio between gold and silver" and that "a serious responsibility "will rest both on the Government of India and on Her Majesty's Government if "they neglect any legitimate means to bring about this result". It would, however, have been more satisfactory if the Indian Government had undertaken to explain the grounds of their confidence that a stable ratio between gold and silver can be established, and the methods by which this is to be accomplished.

* * * * * *

It has been the policy of this country (*i.e.* England) to emancipate commercial transactions as far as possible from legal control, and to impose no unnecessary restrictions upon the interchange of commodities. To fix the relative value of Gold and Silver by law would be to enter upon a course directly at variance with this principle, and would be regarded as an arbitrary interference with a natural law, not justified by any present necessity.

* * * * * *

The observation of the Treasury in 1879 "that nothing is said about reduction of expenditure" seems to apply still more strongly to the existing situation, and it may be safely concluded that the control of its expenditure is far more within the reach of a Government than is the regulation of the market value of the precious metals.

It will appear from the above remarks that the main reason underlying the proposals of the Government of India was to prevent silver exported on private accounts from England to this country for minting purposes from entering into competition with the Government rupee. The Treasury opposed this policy on the ground that it would enhance payments made by England to India for the commodities purchased and exported from here to England.

It is remarkable that throughout all the controversies that have raged round the currency policy of India, the Home Treasury has always made a brave stand to protect the interests of England and preserve her position of pre-eminence in the domain of currency and finance.

Their opposition to the closure of mints in order to save England from paying a higher price for Indian commodities owing to exchange inequalities was no less dignified and patriotic than their attempts, of late years, to dissuade, and even to thwart, India from adopting a Gold Currency for the fear that if Indian Mints are opened to the free coinage of gold, it may put a serious strain on England's reserve of gold and may prove a great temptation for its shipment to India in large quantities. Such staunch adherence and advocacy of one's principles cannot but elicit admiration and praise from those who, though not agreeing with the Treasury's point of view, yet understand and appreciate the motives which prompted it.

If the Indian Government had but taken a real leaf out of the Treasury's history and had they been as unremittingly watchful of Indian interests in matters currency as the Treasury has been of the interests of England, the Indian Currency of to-day would have rested on an entirely different and far stabler basis and "all the mistakes, all "the inconveniences, all the artificialities of our present "position" would have disappeared long ago.

1893.

Closing of the Mints to Free Coinage.

The value of Silver continued to fall and the declaration of the United States Government of its intention to repeal the Sherman Act, whereby about 54 millions of ounces of Silver were purchased by the United States every year for coinage purposes, naturally filled the Government of India with alarm. It was thought that India would now

form the dumping ground for almost all the depreciated silver in the world.* Accordingly, on the 26th June, 1893, the Government of India closed the Indian Mints to the free coinage of Silver.

1913.

The Effects of the Policy of 1893.

A great hue and cry was raised throughout India when the announcement regarding the closure of the Mints was made by Government. Men of experience and acquaintance with local conditions vehemently protested against the measure and characterised it as a death-blow to the Indian export trade. But during the long number of years that have intervened, the people in India have been thoroughly accustomed to the change and the trade has not only recovered any set-back which it may have temporarily sustained at the time but has, since, made rapid strides.

India has to remit nearly 30 crores of rupees every year to England on account of what are known as "Home Charges". This expenditure is incurred in England on account of interest on the portion of India's public debt borrowed in England; in payment of interest and annuities on account of railways purchased by Government from the guaranteed companies; on account of Stores, Arms, and Materials of all kinds imported for the public departments; on account of charges incurred in England for the recruitment and training of the British forces in India; and on account of pensions to retired public servants and soldiers.

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*The steady decline in the value of Silver may be judged from the following statement of average rates for the silver bullion in London:—

1875, 58*d.* per ounce; 1876, 50*d.* per ounce; 1878, 54½*d.* per ounce; 1879, 52¼*d.* per ounce; 1888, 43*d.* per ounce; 1891, 45*d.* per ounce; 1892, 40*d.* per ounce; 1893, 39*d.* per ounce; 1894, 33*d.* per ounce; 1899, 27*d.* per ounce.

The value of Silver now stands at about 27*d.* per ounce in London. An import duty of 4 % is levied by the Government on all silver imported into India.

A considerable portion of this expenditure consists of payments made on account of interest on capital supplied by England and, since the magnitude and extent of the Public Works (Railways and Irrigation) is rapidly enlarging, so the amount of India's public debt has also increased and the volume of Home Charges is proportionately swelled. In 1893, the volume of Home Charges stood at 16 million Pounds; in 1913-14 the figures have run up to over 20 million Pounds sterling. All this amount must be paid in Gold.

In order to give an idea as to how this huge amount is made up, I give below a classified statement of expenditure, chargeable to the revenues of India, incurred for disbursement in England:

THE STATEMENT.

	Revised Estimates, 1912-13. £	Budget Estimates, 1913-14. £
Direct demands on the Revenues, *i.e.*, Land Revenue; Opium; Salt; Stamps; Excise; Customs; Forest; Registration, &c. ..	88,300	99,500
Interest on ordinary debt, chargeable to Revenues..	2,295,000	1,979,100
Post Office	54,700	63,600
Telegraph	179,200	257,900
Mint	7,100	8,100
Salaries and Expenses of Civil Departments	444,300	466,700
Miscellaneous Civil Charges..	2,628,100	2,625,200

	Revised Estimates, 1912-13. £	Budget Estimates, 1913-14. £
Famine Relief;		
Construction of protective Railways and Irrigation Works ..	22,000	7,200
Railways	8,981,200	9,104,000
Irrigation	126,700	134,100
Civil Works	90,500	85,400
Military Services.	5,227,800	5,272,000
Marine..	224,000	251,600
Military Works	30,000	19,800
Special Defences	9,300	7,100
	£20,408,200	20,381,300

A scrutiny of the above figures will show that nearly half the amount of the remittance to England has to be found from revenue taxes, rates and cesses levied from the people. In 1872, before the States of the Latin Union (*i.e.*, France, Belgium, Italy, Switzerland and Greece) demonetised Silver, the rate of exchange stood at one rupee equivalent in the currency of England to about 1*s.* 11*d.*, that is to say, nearly 10½ rupees were required to make-up a remittance of £1 sterling to England. Calculating at this rate, 10½ crores of rupees would have sufficed to make up the portion of the Home remittance chargeable to the Revenues proper (*i.e.*, 10 millions of Pounds.) At the rate of exchange current to-day (*i.e.*, 16*d.* to a rupee), the Indian Government has to levy 15 crores of rupees in taxation (net realisations) to provide for the Home Charges. In other words, the fall in the price of Silver has resulted in a net increase of taxation in India to the extent of nearly 4½ crores of rupees a year in order to complete the Home remittances alone. The Government themselves are a

victim of the blunder committed by their predecessors-in-office in 1818, when they, unfortunately, made Silver, instead of Gold, as the standard medium of currency in India. If India would have had the same sort of currency which is prevalent in England and if Gold Mohur (or Sovereign) had been the standard Unit of coin and unlimited Legal Tender (with silver coins constituting an auxiliary currency and legal tender for small amounts only), the fall in Silver would not have disturbed the finances of India.

The Government of India, on their part, have made the best of, admittedly, a bad bargain by closing the mints to the free coinage of silver and thereby arrested a further fall of the rupee. If the rupee had been a freely minted coin to-day, as it was in 1892, Indian taxpayers would have had to found 20 crores (instead of 15 crores) of rupees in order to liquidate the portion of Home Charges payable out of taxation proper. The adoption of a gold standard by fixing the relation of the rupee with the sovereign permanently at 15 to 1 has not only brought us one stage nearer to a real gold currency but has also proved a permanently beneficial reform and has saved the country from being drained on account of its depreciated currency.

CHAPTER II.

Progress to a Gold Currency.

The unit of the Hindoo system of currency was of Gold, and, although the Mohamedan conquerors introduced a silver rupee in 1542, Gold still formed part of the currency, while in the southern states, where they did not gain ascendancy, a gold currency continued in force, even after the British conquest. *Mr. Lesley Charles Probyn, late Accountant General of Madras.*

Gold or Silver, Which is more ancient?

It has been mentioned in the previous chapter that Gold was the principal medium of currency throughout India in pre-British days. It had been the original measure of value in *Aryavarta* since time immemorial. Gold was being collected from the beds of certain rivers—notably the Indus—in Northern India, and refined, long before Alexander the Great invaded this country in 327 B.C. There are no records to show that Silver, too, was produced in the country at that early age, but large quantities appear to have been brought by foreign traders and travellers for purchase of Gold. "The Phoenicians before the time of authentic history"—writes Professor Henry Dunning MacLeod—"brought vast quantities of Silver from Tar-"tessus, and exchanged it for Gold dust of the Lower Indus, "which Sir Alexander Cunningham, the highest authority "on the subject, holds to be Ophir."

Many thousands of the early Indian silver coins are still in existence, having been dug out of old Buddhistic ruins*. It is said that Gold was not coined in earliest times but was kept as dust, tied up in little bags, which passed current as equivalent of money. History records that the Persian King Darius, who invaded India about 500 B. C., exacted 360 talents of Gold Dust from the King of Northern India—probably of the part now known as the Punjab—as tribute. This gold dust, Darius got coined in Dorics.

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* Sir Alexander Cunningham thinks that silver was first coined in India about 1,000 B.C.

There is no definite information as to when Gold began to be coined in India, but that was, certainly, long before the Persian Mohamedans first visited India in the eighth century A.D. They found that Gold constituted the principal currency in the country though silver coins also passed current, but there does not appear to have been any fixed legal ratio between the two. India was then divided into a number of states—of various sizes and strengths—and every state issued, as was quite natural, its own coinage and the coins of one state found little currency in the jurisdiction of other states, but since the means of communication and inter-state commerce were not so facile and speedy in those days, as they are at present, this diversity of coins may not have caused much inconvenience or impediment to trade. Silver seems to have received an impetus in the Mohamedan times.

In Southern India, where Mohamedan influence was not much felt, Gold was the standard medium of currency right up to the early British days. Silver coins, if any, formed an infinitesimal part. Early English settlers in Madras found "that, in 1796, gold pagodas, worth 3½ rupees "each formed the principal part of the remittance annually "made from Madras to Bengal".* The salary of British soldiers in those days was often paid in Madras in gold coins.

It is evident from the above facts that it is wrong to imply or hold that

(1) From time immemorial Silver has been the standard currency of India; and

(2) India is too poor a country to afford a *bona-fide* gold currency.

Indeed, it was not till 1835, when the present coinage system was first rigidly introduced in India, and silver coins were made Legal Tender to the exclusion of Gold, that India for the first time became a silver-using country.

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* *Vide*, *Indian Coinage and Currency*, by L. C. Probyn. London: Effingham Wilson, 1897. Page 27.

Even then the old habits of the people did not altogether change and gold coins continued to circulate freely among the people to such an extent that the Government thought it proper to annul, in 1841, the previous restrictions and recognise. Gold as a current form of currency.

The Government of Lord Dalhousie, alarmed by the discovery of extensive deposits of gold ore in Australia and elsewhere—which seemed likely to cause a fall in the value of Gold and made Holland, in a moment of undue panic, to demonetise Gold—issued a Notification on the Christmas day of 1852—the auspicious yuletide when Lord Jesus Christ had come into this world with His charming Message of Peace and Goodwill unto all mankind—declaring that thenceforward no gold coin of any kind would be received at the Government Treasuries. And, thus, by a single stroke of pen, His Lordship deprived Indians of the use, as currency, of a metal dearly loved and prized by them all.

1864.

A Powerful Movement for Gold Currency.

About 1864, a strong attempt was made in India to repair the injustice done to Indian currency, and incidentally to Indian trade, by Lord Dalhousie's policy; and to formally secure a currency based on the *bonafide* circulation of Gold by getting the Indian Legislature to declare the English Sovereign, which had by that time acquired a wide circulation in the country, as the standard unit of currency, round which the silver coins were to resolve as an auxiliary media of circulation. The Chambers of Commerce in Bombay, Calcutta and Madras were the pioneers of the movement. Many high officials and leaders of public opinion,—and the Bombay Presidency Association—supported it.

The Bengal Chamber of Commerce was of opinion that the introduction of a gold currency into India was almost universally admitted to be a positive necessity

demanded by various circumstances which had been developed within the last few years ; and the time had arrived when that necessity should at once be recognised by the State, and measures promptly adopted which should gradually, but surely, lead to the adoption of Gold as the general metallic currency of the country, with Silver as the auxiliary.

The introduction of a gold currency into India, urged the Bombay Association, was an absolute necessity for the expansion of trade and commerce. The existing silver currency was no longer adequate for the increasing wants of the country and commerce was seriously crippled by its inefficiency. From time immemorial until within the last few years India had an extensive gold currency, and the superior convenience of it was fully appreciated by the Natives. The measures taken by the Government had suppressed the gold currency, but had by no means extinguished its popularity. The gold coins in circulation commanded a considerable premium in the market and the Natives made an attempt to remedy the deficiency by circulating Gold bars bearing the stamp of the Bombay Banks. Large quantities of gold had been discovered in neighbouring countries, which would greatly facilitate the introduction of Gold. The direct trade with Australia was prohibited by the exclusive Silver Standard, and the expansion of the commerce of India was seriously impeded. A silver currency might have been suitable to the country when its commerce was limited, and payments in the main extremely small, but was very inconvenient when wealth was largely diffused throughout the country and the operations of commerce had become so enormous. The transport of this bulky and cumbersome currency entailed heavy and useless expense on the country, and was a serious impediment to the growth of trade. The insufficiency of the existing currency had already caused severe financial embarrassment and threatened the commerce of India with periodical and fatal vicissitudes. The restora-

tion of a gold currency would be most popularly received in India, both from ancient associations and present convenience.

The views expressed by the Bombay Chamber of Commerce were, as befitted that body, pregnant with sound judgment and practical wisdom. The monetary condition of India, said the Chamber, was in the most unsound and unsatisfactory state, and its exclusive silver currency was no longer adequate for its vast population. The trade of Bombay had trebled within the last ten years, and the last year the aggregate import and export trade alone of Calcutta, Bombay and Madras had amounted to nearly Rs. 1,06,00,00,000*. The resources of India were only then beginning to be developed, and were rapidly extending in all directions. The special demand of India for Silver did not arise from any predilection for that metal, but was compulsory, and due only to the Government's exclusive and inconvenient silver currency. While Silver was transported from a great distance at heavy cost, Gold might be cheaply obtained from neighbouring countries.** The heavy charges on Silver prevented its re-exportation, and thus it lost its reproductive power, and was a serious and unnecessary loss to India. The exclusive Silver Standard and currency of India rendered direct trade with Australia and other gold producing districts impossible, and forced a country with abundance of Gold to traverse half the globe in search for Silver before she could pay for European commodities. The superiority of Gold would secure an immediate and intelligent welcome for it in India. The importation of Gold into India had steadily increased for many years, though it was not legal tender. The Natives themselves had devised a rude remedy for the deficiency of the existing silver currency by using Gold bars stamped by the Bombay Banks as a circulating medium. The exclusion of Gold from the currency of

* The total volume of import and export trade of these three towns has vastly increased since.

** Gold deposits had not probably been discovered in India by that time. The Indian output of Gold now amounts to over 3 crores of Rupees every year.

India could not be justified or be considered other than barbarous, irrational and unnatural. The only remedy was to introduce a well-regulated gold currency into India.

The Madras Chamber of Commerce expressed nearly the same opinions as were stated by the Bengal and the Bombay Chambers of Commerce, and strongly urged the introduction of a gold currency.

Sir William Mansfield (afterwards Lord Sandhurst) presented a long memorial urging the same views.

Several Government Officers, under instructions from the Government, held meetings to elicit public opinion in regard to this question. The people were unanimous in their approval of the scheme for the introduction of a gold currency and had no doubt of its success. They testified that Sovereigns in immense quantities circulated in their districts: the Indians bought them in large quantities. An important witness said that the introduction of Sovereigns into Rangoon would be highly beneficial; he Sovereigns were very popular in Burma, and should be the only standard coin. A large number of Collectors in the Southern India reported that large quantities of Sovereigns were in circulation in their districts; and the Indians bitterly complained of the losses and inconveniences they suffered from their not being received at the public treasuries.

The bankers of Lahore were unhesitatingly in favour of the declaration of the Sovereign as the standard unit of currency, because it was the coin most familiar to them, being most abundant, and almost the only one used for equalising the Exchanges; and if a gold currency were introduced the cash balances would become much more available, and it would facilitate the adoption of a paper currency.

The volume of evidence in favour of the introduction of a gold currency was solid and large. I have taken only a few excerpts representing the bulk of opinions expressed.

Urged by such a powerful and extensive movement, the Government of India addressed on the 14th July, 1864, a Despatch to Her Majesty's Secretary of State for India proposing "that sovereigns and half-sovereigns, according "to the British and Australian Standard, coined at any "properly authorised Royal Mint in England, Australia, "or India, should be made Legal Tender throughout the "British dominions in India at the rate of one Sovereign "for ten Rupees; and that the Government currency "notes should be exchangeable either for rupees or for "sovereigns at the rate of a Sovereign for ten Rupees, but "they should not be exchangeable for bullion".

Her Majesty's Government replied that while unwilling to make the Sovereign a legal Tender, they saw "no "objection to reverting to a state of matters which prevailed "in India for many years, namely, that gold coin should "be received into the public treasuries, at a rate to be "fixed by Government, and publicly announced by Proclamation". It was considered that this experimental measure "will, so far as it goes, facilitate the use of the "sovereign and half-sovereign in all parts of India; it will "pave the way for the use of a gold coinage in whatever "shape it may ultimately be found advisable to introduce "it: and at the same time, it establishes a preference in "favour of the Sovereign".

A Notification was, accordingly, issued by the Government of India, on 23rd November, 1864, directing that sovereigns and half-sovereigns be received, until further notice, as equivalent to Rs. 10 and Rs. 5 respectively, in payment of sums due to Government.

1866-7.

The First Currency Commission.

An Indian Currency Commission,—perhaps the first of its kind and the fore-runner of the Herschell, the Fowler and the Chamberlain Commissions of the later days—was appointed to deal with the subject of the currency of this country in all its bearings. This Commission,

after careful investigation, came to the conclusion that "the demand for gold currency is unanimous throughout "the country" and recommended the acceptance of English and Australian sovereigns in all the Government Treasuries of India, without restriction, and the issue of currency notes in exchange for Gold.

In response to the above recommendations, the Government of India permitted, in 1869, the receipt of English and Australian sovereigns by the Government Treasuries. The rate of exchange was raised to ten rupees and four annas.

1872.
Sir Richard Temple's Note.

During the Viceroyalty of the Earl of Northbrook, Sir Richard Temple, who was then Finance Member of the Imperial Council, wrote a Memorandum recommending a gold standard and gold currency for India. "There was no man", said Lord Northbrook in his evidence before the Indian Currency Committee (1898), "who had more "experience of India all round than Sir Richard Temple. "He had been in almost every part of it in responsible 'positions, and he would not have recommended this, "if he had not believed that a gold currency was likely to "be acceptable".

Sir Richard was, later on, promoted to a Governorship in India. This memorandum of his is one of the most cogent, philosophical and able pronouncements ever made on the subject of gold currency for India.

It is a lengthy document. I have given it *in extenso* at the end of this book in the form of Appendix A, and would recommend its perusal to all interested in the question of gold coinage and currency. It bears the date of 15th May, 1872.

1875.
Mr. Hollingbery's Vindication.

The continued fall in the value of Silver was causing considerable damage to the finances and material progress of India. Mr. Hollingbery, then Assistant Secretary

to the Government of India in the Finance Department, after a careful investigation of the matter, submitted a most well reasoned report to the Government.

The price of Silver had fallen abroad to $57\frac{1}{2}d.$ per ounce in 1875, but it had not yet affected the market value of the metal in India to that level. In course of time, however, it was bound to fall to its value abroad. Mr. Hollingbery represented that what was wanted in India was not the withdrawal of Silver as a bullion operation, but the substitution of Gold for Silver in future importation of bullion to settle any balance of trade. The question was, therefore, not what a difference in the value between Gold and Silver would suffice to expel Silver, but what would be sufficient to make the importation of Gold into India for coinage more profitable than the importation of Silver.

Mr. Hollingbery estimated the quantity of Silver in circulation in India at 130 millions sterling; and thought sixty millions of Gold would be far more than sufficient to restore a gold currency. He showed that with a gold currency the cost of remitting fifteen millions sterling to England for Home Charges would never exceed the cost of sending Gold from India to England, that is $\frac{7}{8}$ to 1 per cent. But owing to the balance of trade being always in favor of India, the Council Bills would always be at a premium, so that instead of a loss there would always be a profit.

He pointed out that countries which have a silver currency and have an adverse balance of trade or borrow in gold-using countries experience a heavy loss in making remittances for the latter countries: for which reason they find it necessary to adopt a gold standard, and every new country which adopts a gold standard makes the necessity more urgent for the remaining silver countries to conform to the general custom of the world, and adopt Gold as the sole legal standard. And the effects of this fall would be disastrous to India because it would be the only country in the East which would offer a fixed price for Silver irrespective of its depreciation abroad, and so it would be flooded with depreciated Silver.

By persisting in retaining Silver as the standard of India, the finances and the progress of India would be irremediably injured; on the other hand great financial advantages and commercial good to India would follow from the adoption of a gold currency in India. And it was not a mere fanciful desire for change, but stern necessity which compelled the European States to adopt a Gold Standard. The same principles which apply to European States also applied to India. The postponement of a change to a Gold Standard will not arrest the evils which were in progress from the fall in the value of Silver, while the longer the change to a Gold Standard was delayed the more difficult and expensive, but not the less inevitable, will it be in the end.

This most able report, remarks Professor MacLeod, deserves the most careful study, as every one of its prognostications has been fully verified and intensified; country after country has adopted a Gold Standard, and even Japan, which was long considered as the fortress of Silver, has been obliged to take to Gold.

1878-79.

Proposals to make Sovereign Legal Tender.

The Government of India in a despatch addressed to the Home Government, in 1878, expressed the opinion "that it will be practicable, without present injury to the "community as a whole, or risk of future difficulties, to "adopt a Gold Standard* while retaining the present silver

* Some people have tried to explain that the term "Gold Standard" did not mean a real gold currency. They say: "A country has a perfect gold monetary standard when its money is referable "to a fixed gold unit. . . . . . . When all money bargains are based on "gold, and expressed in gold or its efficient representatives, and when Gold thus becomes the legal "and effective measure of value". (Probyn, *Indian Coinage and Currency*, 1897, page 36.) And it is, therefore, not necessary that gold coins should constitute the actual media of circulation so long as Silver rupee is referable to and is expressed in (for purposes of exchange) a fixed ratio with the Gold Sovereign, and this has already been attained in India by the closure of Mints and the fixity of exchange at 1*s*. 4*d*.

Enough proofs are given in the evidence cited in this book to show that such an interpretation of the said term is incorrect and amounts to a distortion of the whole scheme. But with a view to directly contradict any such theory, I may cite the evidence of Lord Northbrook, ex-Viceroy of India. Speaking before the Indian Currency Committee, 1898, His Lordship stated:

"I think that, in order to establish a practical gold standard, it must be accompanied by a "gold currency. I do not understand a gold standard separated from a gold currency—I mean "separated from giving anybody who has gold the power of taking it to some place, and having it "cut out into pieces of the weight and fineness of the standard of value to be established. A Gold "Standard means that by law a certain quantity of gold of a certain fineness, marked in a certain "manner, shall be the measure of value for commodities, and I do not understand how such a standard can be introduced for any practical purpose unless the Indian Mints are opened for the coinage "of Gold, and this is the same thing as to introduce a gold currency . . . . . . My "impression is that the great mass of the transactions, both of the Government and of the people, "are small, and that it might in the end, be feasible to limit the legal tender of the rupee . . . "to transactions below a certain amount, and to open the Indian Mints for the coinage of Sovereigns of the standard weight and fineness, the same as our sovereigns".

"currency of India, and that we may thereby in the future "fully protect ourselves from the very real and serious "dangers impending over us so long as the present system "(*i.e.*, silver standard) is maintained".

With the eventual object of adopting of a gold standard and currency, on the British model, and in order to help in the extension of the use of gold coins in India, the Government of India proposed to proceed at the outset as follows :-

We first take power to receive British or British-Indian Gold coin in payment for any demands of the Government, at rates to be fixed from time to time by the Government, till the exchange (which then stood at about 1*s.* 7*d.*) has settled itself sufficiently to enable us to fix the Rupee value in relation to the Pound sterling permanently at 2*s.* Simultaneously with this the seigniorage on the coinage of Silver would be raised to such a rate as would virtually make the cost of a Rupee—to persons importing bullion—equal in amount to the value given to the Rupee in comparison with the gold coins above spoken of. We should thus obtain a self acting system under which Silver would be admitted for coinage at the fixed Gold rate as the wants of the country required; while a certain limited scope would be given for the introduction and use of gold coin, so far as it was found convenient or profitable.

These proposals did not meet with the Home Government's sanction.

1892.

Bengal Chamber of Commerce to the rescue.

Representatives of different countries met at an International Monetary Conference at Brussels, to consider measures for the increased use of Silver as currency. They failed to arrive at any satisfactory conclusion. This brought the question of changing the standard of value in India from Silver to Gold once more into prominence.

The Bengal Chamber of Commerce represented to the Government of India that it was "impossible for men of "business to feel any confidence in the future value of the "Rupee, and they believe that such a state of things res-"tricts the investment of capital in this country and seri-"ously hampers legitimate enterprise".

And, if success in the settlement of Silver question could not be secured by an international agreement, the Chamber

of Commerce saw nothing "but the prospect of endless "fluctuations in the relative values of Silver and Gold, "attended with a fall in the value of Silver of indefinite "amount; and the Committee (of the Chamber of Com-"merce) think that in such case the Government of India 'should take steps to have the question of the advisabi-"lity of introducing a Gold Standard into India carefully "and seriously considered by competent authorities".—(18-2-1892).

1893.

Lord Herschell's Commission.

The Government of India telegraphed to Her Majesty's Secretary of State for India suggesting to "at once close "its mints to the free coinage of Silver and make arrange-"ments for the introduction of a Gold Standard".—(21-6-1892).

In October, 1892, the Earl of Kimberley, then Secretary of State for India, referred the proposal of the Government of India, for investigation and report, to a Commission consisting of Lord Herschell (President); Lord Farrer; Lord Welby; Mr. Leonard Courteny; Sir Arthur Godley; General Sir Richard Strachey; and Mr. Bertram Currie.

In their report, dated 31st May, 1893, the Commissioners expressed themselves as follows:—

While conscious of the gravity of the suggestion, we cannot, in view of the serious evils with which the Government of India may at any time be confronted if matters are left as they are, advise Your Lordship to over-rule the proposals for the closing of the Mints and the adoption of a Gold Standard which that Government, with their responsibility and deep interest in the success of the measures suggested have submitted to you.

But we consider the following modifications of these proposals are advisable: The closing of the Mints against free coinage of Silver should be accompanied by an announcement that, though closed to the public, they will be used by Government for the coinage of rupees in exchange for Gold at a ratio to be then fixed, say, 1*s.* 4*d.* per Rupee; and that at the Government Treasuries Gold will be received in satisfaction of public dues at the same ratio.

The Secretary of State for India, thereupon, sent on the 20th June, 1893, a cablegram to the Government of India, which reads:

Her Majesty's Government have decided to approve the proposals of your Government to close the Mints to free coinage, and to make arrangements for the adoption of a Gold Standard, subject to the modifications recommended by Lord Herschell's Committee, which your Government have accepted. You are, therefore, empowered to take the necessary steps.

In accordance with the foregoing arrangements, the Government of India, issued on the 26th June, 1893, notifications whereby—

(1) Indian Mints were closed to the free coinage of Silver.

(2) The Government undertook to receive gold coins and gold bullion at the Mints in exchange for Government rupees, at the rate of 7·53344 grains troy of fine gold for one rupee, plus a charge of one-fourth per mille on all gold coin or bullion which would have to be melted or cut so as to render the same fit for receipt into the mint.

(3) Gold sovereigns and half-sovereigns of current weight, coined at any authorised Royal Mint, were made legal tender at all the treasuries of British India and its dependencies in payment of sums due to the Government, as the equivalent of fifteen rupees and of seven rupees and eight annas, respectively.

(4) Currency Notes could be had from the Paper Currency offices in exchange for gold coin or gold bullion at the rate of one Government rupee for 7·53344 grains troy of fine gold (1*s*. 4*d*.)

It is evident from the above facts that the Government of India had, in 1892-93, actually proposed to Her Majesty's Government, and then with the latter's full concurrence, actually decided that the closure of the Indian Mints to the free coinage of Silver would be accompanied by the restoration of a Gold Currency in the country.

1897.

A subsidised Gold Standard.

No further action appears to have been taken by the Government of India till 1897 in the direction of

redeeming their pledge, to introduce a gold currency in India. In this year, the Government of India again addressed a despatch to the Secretary of State expressing their readiness to go in for a Gold Standard if they were assisted by the Imperial Government. The following excerpt from the aforesaid despatch, which is dated the 3rd March, 1897, would be found interesting :—

We have been led by public discussions in England to believe that Her Majesty's Government might be willing to entertain the proposal to give assistance to India in some shape towards the attainment of the object we have in view. While we cannot plead inability on our own part to carry our proposals into effect, at any rate so far as the stage to which at present we propose to confine them, we think it our duty to represent that the establishment of a Gold Standard in India is a matter of Imperial concern, and that India may fairly claim that the whole burden should not be put upon her. We would urge that Her Majesty's Government should contribute not only in material assistance, but by creating that greater confidence which will undoubtedly be the result of their publicly assuming a share of the liability.

The Home Government could not see their way to accede to the above proposal.

The notions about the introduction of a gold currency involving a large expenditure of money were greatly exaggerated The extension of gold currency, in the present shape of the Government's proposals, does not mean anything beyond the throwing open of the Indian Mints to the coinage of Gold, when tendered by any private individual ; and the introduction of this simple measure will not cost much expense.

1898.

"A Famishing Money Market."

In 1893, the rate of exchange had already fallen to 1*s*. 2·985*d*. per rupee. Consequently, the first object which engaged the Government's attention, after the closure of the Mints, was to raise the exchange value of the rupee. The Government acted on the principle that the exchange value of the rupee would depend on the number of rupees in circulation and that if the supply of rupees were limited, the exchange would automatically be forced

up. With this end in view, no rupees were coined from June 1893 till 1897. The balances of silver rupee reserve fell to about 3 crores.

The money market was famished and the distress which ensued has been thus graphically described by Mr. Merwanjee Rustomjee, representative of the Bombay Native Shares, Stocks and Exchange Brokers' Association, in the course of his evidence, before the Indian Currency Commission of 1898 :

The stringency of the money market (in 1898) . . . . was so severe that it was impossible to sell Government paper or get advances upon it. Our firm was repeatedly asked by a firm of undoubted standing, trading with England and China and other parts of the world, to get advances on Government paper. This firm was always holding more than Rx. 100,000 worth of Government paper for the purpose of raising money whenever it required it. But we were unable to negotiate assistance for them; we did get them the money at times, but on condition of repayment within two or three days, and very often the banks confessed that they were unable to lend owing to want of cash in hand to spare for the purpose. This is a most serious inconvenience to trade. . . . . . The result of such tightness, it can be easily imagined, would block trade; exports would be slow to move; and importers would find it hard to meet their obligations. There is a large business done by brokers for Exchange Banks and Presidency Banks in Government paper for a short settlement ahead, and the brokers avoided as much as possible executing such orders, and requested the banks not to sell paper for delivery on one fixed day, as they could not guarantee payment, and, in fact, portions of such settlements were postponed beyond due date as nobody would buy Government paper or advance upon it.

With Government paper in such a predicament, one can easily realise how difficult it would be to sell other securities. Holders of shares and Municipal Bonds and other first class securities could not either sell or raise money on their securities. It was a terrible state of affairs and would be intolerable in London for a day. . . . . . A glaring illustration of the far reaching hardships resulting to India from the stringency of money is furnished by the recent failure of the Municipality of Bombay to float a loan of 29 lakhs at 4 per cent. interest. The Municipality has always commanded nearly as good credit as Government paper, and the failure to float its loan is due to the experience of the stringency of money for the last two years. . . . . Government are unable from the same cause, more or less, to help the Municipality. Thus the most urgent works, such as sanitary measures on a large scale, and the improvement of the drainage and dwellings of the poor, which are the crying necessity of Bombay, run the risk of being indefinitely postponed,—to the great danger of the health of the people. . . . .

Mercantile credit has been shaken a good deal. . . money rose to an unprecedentedly high rate of interest, ranging from 13 per cent. to 24 per-cent. per annum on best securities, and that was its current value for some time although the Bank of Bombay rate was nominally at 13 per cent.

Actually, however, 18 % interest was reported to, at times, have been charged by the Bank of Bombay for advances on the security of Government paper, and even at this high rate of interest, enough money was not procurable.

1898.

The Appointment of the Fowler's Commission.

The currency policy of the Government of India was thus subjected to a most severe test and it looked as if it was in danger of breaking down under the strain.

Lord George Hamilton, therefore, appointed a Committee "to deliberate and report . . upon "the monetary system . . in force in India . . "and to submit . . suggestions . . for the "establishment of a satisfactory system of currency in "India, and for securing, as far as is practicable, a stable "exchange between that country and the United Kingdom".

The Committee was constituted as follows:—Sir Henry Fowler, G.C.S.I., M.P., Chairman; Lord Balfour of Burleigh; Sir John Muir, Bart.; Sir Francis Mowatt, K.C.B.; Sir David Barbour, K.C.S.I., late Finance Member of the Council of the Governor-General of India; Sir Charles Crosthwaite, K.C.S.I.; Mr. F.C. Le Marchant; Mr. Edward Hambro; Mr. W.H. Holland; Mr. Robert Campbell; Sir Alfred Dent, K.C.M.G.; Mr. Robert Chalmers, Secretary.

1898.

Lord Northbrook's Evidence.

The Right Honourable the Earl of Northbrook, G.C.S.I., commenced his official career as Private Secretary to Lord Hallifax, when he was Sir Charles Wood and President of the Board of Control, before the Government of India was transferred from the East India Company to the Crown. Afterwards, when he went into the Parliament, he was Under Secretary for India, in 1859 and 1860; Sir Charles Wood was then Secretary of State for India. His Lordship then went to the War Office for a short time, and subse-

quently came back to the India Office and remained there till 1864. He was Governor-General and Viceroy of India from 1872 to 1876.

Lord Northbrook's vast and varied experience and the excellent opportunities His Lordship possessed of studying the question of a gold currency for India, together with the exalted positions held by him and his high sense of responsibility, all go to endow his opinions with considerable weight and importance. His clear and forcible arguments in favour of a gold currency in India deserve every respect and consideration at the hands of the powers that be.

Speaking before the Indian Currency Committee, on the 4th November, 1898, His Lordship expressed himself thus :

(*Questions put by the Chairman*). Have you any observations to put before the Committee as to the objections which have been raised to the introduction of a Gold Standard into India ?—Yes. The first objection is that the gold standard is not suitable to India, because India is a poor country. I really do not know what is meant by a poor country. If wealth is to be determined by revenue, or trade, or credit, I cannot admit that India is a poor country in comparison with many countries that have a Gold Standard. Of course, local exchanges of commodities in India are carried out, principally, not even in silver, but in copper and gold coins would only be used in the larger transactions. But it does not follow that Gold would not be extensively used for those transactions.

Another objection raised is that a gold currency is unsuitable to the Indian people. Sir Robert Griffen, in an article he wrote the other day, said there is no demand for a gold currency in India ; but, in my opinion, by far the greater weight of authority is upon the other side. In order to establish this, I must trouble the Committee with a short history of what has happened in India with regard to coinage.

The unit of the Hindu coinage was Gold, and gold coins were in circulation before the Mohamedans came. The Mohamedans introduced the rupee, but at the same time gold coins called Mohurs were freely circulated. At first, under the East India Company, Gold and Silver coins were both Legal Tender. There is a Despatch which has been laid before Parliament (I think it was moved for by the Chairman of this Committee) from the East India Company in 1806. In that Despatch you will find a very intersting piece of evidence on that matter. In paragraph 20 you will see that, under the Government of Madras, gold coins were then the principal currency, money of account, and the measure by which the pay of the troops was generally calculated. Those gold coins were of a very moderate amount ; they were called Star Pagodas, and were worth about 8*s*. They were the currency of Madras at that time. Gold and Silver coins remained in circulation as Legal Tender till 1835, when the Silver Rupee was made the sole Legal Tender. Notwithstanding that a considerable amount of Gold continued

to be coined at Calcutta, and gold coins were received at certain rates at the Government Treasuries. A stop was put to that in 1853, but, nevertheless, Gold continued to be coined; and, in 1857, the Bombay Government recommended the introduction of the Sovereign as Legal Tender. At about the same time there were so many English Sovereigns—or rather Australian I think they were—introduced into some districts of Madras by labourers returning from Ceylon and Mauritius, that the Government were obliged to receive them into the Treasuries, and a Gold Currency based on the sovereign would rapidly have superseded the rupee currency, if the Government of India had not prevented it.

In 1864, the principal commercial associations in India recommended a Gold Currency—the Bombay Chamber of Commerce, the Bengal Chamber of Commerce and the Madras Chamber of Commerce—and the Government of India in the same year recommended the introduction of the Sovereign as Legal Tender.* In 1866, the Calcutta Chamber of Commerce again recommended the introduction of the Sovereign as Legal Tender. A Commission was then appointed to enquire into the matter, and reported that, "The demand for Gold Currency is unanimous throughout the country". ** . . . . .

In 1878, the Government of India recommended a Gold Standard and the ultimate adoption of a gold currency. . . . . . .
Perhaps some member of the Committee may say, how is it . . . .
that you did not adopt it? The answer is a very simple one. That was a time when Gold was appreciating, and it was impossible to do it. Then, after that came the question of bimetallism. That, I think very properly, turned all the thoughts of the Indian Government in the direction of trying to keep the Silver Standard by securing an international monetary arrangement with France and the United States of America, and, therefore, the particular question of the Gold Standard and currency went into abeyance. But at the same time, during those discussions, when Lord Reay and Sir Louis Mallet were the representatives of the India Office at the Monetary Conference of 1881, after coming back from that enquiry *re infecta*, without having been able to do anything, they reported that India, by adopting a Gold Standard, could, in a few years, obtain a supply of Gold sufficient for all purposes of her commerce as a standard of value, and that the difficulties derived their force rather from the interests of England and other gold-using countries than from those of India itself.

Now, this I want to put before the Committee. There is a remarkable fact which presents itself to me in looking back at all this again,—because I knew it before—namely, that all through these papers, and all through the consideration and discussion of the question, there is hardly one single suggestion from any one with a knowledge of India—I doubt whether there is any suggestion at all that a Gold Currency would not be popular in India if other circumstances rendered it desirable. I, therefore, venture to think that, if the history of coinage in India is considered, the balance of authority shows that there is no ground for rejecting a Gold Currency as being unsuited to India. I am glad of having had an opportunity of putting this forward, because I have not seen it in evidence, nor is it elaborated in any of the publications which I have read on this subject.

* An account of this correspondence has already been given. For further details see *Sir Charles* Trevelyan's Minute, published as Commons Papers No. 79 of 1865.

** See Commons Papers No. 148 of 1868.

Another argument against a Gold Standard is that its cost would be enormous. I have dealt with that already; I do not admit it. I would add that the evidence given by Lord Rothschild and Sir Samuel Montagu, and the facts as to gold production, show that such gold as would be required in India could be easily supplied out of the gold production of the world. The production of Gold in the world has increased . . . . Therefore, I think that the difficulties which existed, no doubt, when Gold was appreciating, need not now stand in the way of making this change. There is no reasonable probability that anything that the Government of India may do, or any reasonable quantity of gold that they may want, can seriously interfere with the Gold market of the world or injure any Gold Standard countries.

Do you think, taking all these circumstances into consideration, this is a suitable time to make such a change?—I cannot conceive a better time than the present. You have got the Exchange up to 1*s* 4*d*; you have a large production of Gold, and everybody expects that some decision will be come to upon the matter. . . . . Taking all the circumstances together I cannot conceive a better time to make the change than the present.

In regard to the question of expense to be incurred by the Government of India in throwing open the Indian Mints to the free coinage of Gold and introducing a Gold Currency in India, Lord Northbrook gave, at an earlier stage in his examination, the following evidence :—

Would Gold have to be provided for that purpose by the Government of India?—I do not think it would be necessary. I have seen it stated that to establish a Gold Standard and a Gold Currency in India would require an enormous accumulation of Gold by the Government of India. I do not see that myself. I think that the supply of Gold would be obtained gradually, and without any such great cost to the Government of India as has been suggested. In the first place, the opening of the mints to the coinage of Gold would cost the Government nothing except the cost of the coinage. Anybody who chose to bring Gold to the mint would have it cut into a sovereign, and the Committee, of course, know that at this moment there are supposed to be something like £300,000,000 sterling of Gold in India. It will probably be to the advantage of some, at any rate, of the holders of that Gold to bring it to the mints to be coined . . . . . . Then again, I think, after certain notice and with every protection to individuals, the customs duties might be levied in Gold, and if the Government of India went through the other items of revenue, it might be found that some of those other items might be collected in Gold. Certainly, the opium sales might be made for Gold; there is no difficulty about that. Then I think that about three millions of Gold are now produced in India. If the people who are interested in that production can manage to have the refining carried on in India they might send that Gold to the Indian mints and have it coined at probably considerable profit to themselves. Therefore, I do not think there is any necessity for any large expenditure by the Government of India in order to provide Gold.

1899.

The Indian Currency Committee's Report.

The Indian Currency Committee,—consisting as it did of prominent Financiers, Bankers, Merchants, Officia's and retired Members of the Government of India—after a thorough investigation of the whole question made the following important recommendations :—

(1) That the British Sovereign should be made Legal Tender and a current coin in India.

(2) That the Indian Mints should be thrown open to the unrestricted coinage of Gold.

(3) That as soon as the Government of India had accumulated a sufficient Gold Reserve, and so long as Gold was available in its Treasuries, it might discharge its obligations in India in Gold.

(4) That profits made on the coinage of rupees should not be credited to the revenue or held as portion of the ordinary balance of the Government of India, but kept as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury balances.

(5) That no fresh rupees should be coined until the proportion of gold in the currency was found to exceed the requirements of the public.

(6) That with the object of attaining the effective establishment of a Gold Standard and Currency as above, the Government of India should husband its resources, exercise a resolute economy, and restrict the growth of its gold obligations.

The report of proceedings of the Committee, published as official blue books in 1898 and 1899, shows that the members of the Committee had gone very carefully into the matter and before making the above recommendations they had fully satisfied themselves that the people of India were—by traditions, nature, national habits and predi-

lections, as well as by reason of growth in commerce and wealth,—in quite a fit and ripe condition to use gold coins as currency media in their daily monetary transactions. The efforts that are now made in some quarters to explain that "the Fowler Committee had to deal with a great many "subjects on which they had perhaps not very much ex-"perience to guide them"—and hence their recommendations need not now be given much importance to—are due, probably, to nothing except an ingenious desire to defeat the proposals of the said Committee and, again, to put off the day of the realisation of India's hopes and the redemption of the oft-repeated pledges given by the representatives of the British Government to the people.

1910.

Sir James Meston's Declaration.

During the course of his speech in the Budget debate in the Imperial Legislative Council, Sir James Meston, then Financial Secretary to the Government of India, made the following frank and forcible statement of the Government policy on the question of the establishment of a gold currency for India :—

The broad lines of our action and our objects are clear and unmistakable, and there has been no great or fundamental sacrifice of consistency in progress towards our ideal. Since the Fowler Commission that progress has been real and unbroken. There is still one great step forward before the ideal can be reached We have linked India with the gold countries of the world, we have reached a Gold Exchange standard, which we are steadily developing and improving. The next and final step is a true gold currency. That, I have every hope, will come in time, but we cannot force it. The backwardness of our banking arrangements, the habits and suspicions of the people, the infancy of co-operation—all stand in the way. But the final step will come when the country is ripe for it. I trust that will not long be delayed; for, when it comes, it will obliterate all the mistakes, all the inconveniences, all the artificialities, of our present position.

1912.

Government once again champion the cause.

In a despatch sent on the 16th May, 1912, to the Secretary of State for India, the Government of India once again put forward the case in the following lucid and strong language :

It is, we think, an indisputable fact that the establishment of a gold currency was regarded as the logical and natural sequence of the closing of the mints to Silver, and as the necessary accompaniment of the establishment of a Gold Standard. . . . . Such a measure will mark a step along the path which has been authoritatively accepted as the line on which our currency policy must develop, and in time it will be of great assistance in maintaining the stability of our currency system. . . . .

Our proposal for a gold coinage has behind it the overwhelming support of the Indian public opinion, the leaders of which are ready and anxious to extend the every day use of the common coin of the Empire, and are unable to understand why India should be denied the same minting facilities as have been given to Australia and Canada.

The Home Treasury, to which the matter was referred, pointed out several obstacles in the acceptance of the proposal; the coinage of Gold Sovereign in India was pronounced to be beset with legal difficulties. Accustomed as we in India have become to what Sir Guy Fleetwood Wilson once remarked as the Treasury's spirit of scarcely veiled hostility towards this question, their answer did not cause much surprise.

1913.

The Royal Commission on Indian Finance and Currency.

Baffled once again in their attempts to secure the restoration of a gold currency in India, and despairing at the inability of the India Office to cope with the situation, the Government of India accepted the suggestion of the Secretary of State that, before any final decision was taken, the usual procedure of eliciting public opinion in India by means of a Royal Commission should be followed. In vain did the Government of India urge (*vide*, telegram dated 18th May, 1912) that "Matter has been twice subject "of debate in Imperial Legislative Council, and during past "year has been discussed vigorously in Press and by Com-"mercial interests in India and England; therefore (we) do "not think it is necessary to collect further opinions."

A Royal Commission on Indian Finance and Currency has accordingly been appointed. It consists of the Right Hon'ble Mr. Austen Chamberlain, M.P., (Chairman); Lord Faber; Lord Kilbracken, G.C.B.; Sir Robert Chalmers, K.C.B.;

Sir Ernest Cable; Sir Shapurjee Burjorjee Broacha; Sir James Begbie; Mr. Robert Woodburn Gillan, C. S. I.; Mr. Henry Neville Gladstone; and Professor John Maynard Keynes, (Members); Mr. Basil P. Blackett, Secretary.

The terms of reference are: To enquire into the location and management of the general balances of the Government of India; the sale in London of Council Bills and Transfers; the measures taken by the Indian Government and the Secretary of State for India in Council to maintain the exchange value of the rupee in pursuance of or supplementary to the recommendations of the Indian Currency Committee of 1898, more particularly with regard to the location, disposition and employment of the Gold Standard and Paper Currency Reserves; and whether the existing practice in these matters is conducive to the interests of India; also to report as to the suitability of the financial organisation and procedure of the India Office, and to make recommendations.

After the decision about the appointment of the Royal Commission was arrived at, the Government of India urged on the attention of the Home Government that in order to enable the Commission to ascertain the real wishes of the people, every facility should be offered to the public in India to approach and put forward their views before the Royal Commission.

"In your telegram of the 14th February"—runs the cablegram sent by the Government of India on the 10th April, 1913—"we were informed that the Royal Commission would enquire *inter alia* into Indian Currency administration. . . . . It is assumed generally by the public in India that the question "(re gold coinage and currency) will be left for the Commission to decide, and we are of opinion, after full consideration, that this is the only possible course now. Ample "opportunities for ascertaining the opinion of representatives of the commercial public in India will no doubt "be given to the Commission."

Without in any way anticipating the recommendations of the Royal Commission, or attempting to prejudice their judgment, it may be remarked that the way in which the Commission has hurried through its work does not hold out much hope of a satisfactory solution of the question. Inspite of the fact that the Government of India urged that "ample opportunities" should be given to the people of India to represent their case, very few Indians have been examined, and of these, too, several are Government Officials. The object for which the Commission was appointed is to set right the anomalies of the Indian Financial and Currency Administration; and, obviously, the best place to make a thorough enquiry into these affairs is India itself. The people of this country fondly hoped that the Commission would visit India and afford them "ample opportunities" of explaining their difficulties. But, it appears, that the Commission has no intention of doing so and the Royal Commissioners have contented themselves with the evidence of only a few non-official Indian witnesses that could bear the trouble and expense of going all the way from India to England to appear before them. Groaning under the inequitous weight of an arbitrary system, the people of India prayed for a remedy. The remedy is held out but the process incidental to the attainment of the object is at once too costly and troublesome to be within the reach of the people mostly interested in the matter.

Needless to add, the absence of sufficient Indian representation in the constitution of the Royal Commission, and its decision not to visit India have caused considerable disappointment and have detracted from the popularity of the enquiry. It is earnestly hoped that the grievances of the people of India in currency matters will be removed and the recommendations of the Government of India will be sanctioned by the Home Government. If, however, the persons at the helm of affairs in England fail to guage the true extent of the public

feeling in the matter, the expectations raised by the appointment of the Royal Commission will, if unfulfilled, tend to deepen the feelings of discontent and the heart-burning among the commercial public in India will grow bitter.

The Bogey of Hoarding.

While the Government of India, and the public, have been leaving no stone unturned in their endeavours to bring about the establishment of a real gold currency in India, some stay-at-home Englishmen and a few financiers of England and their prototypes in India have been busy in creating misunderstandings in respect of the attitude of the Indian people towards Gold. These misrepresentations are intended to serve as a blind and to set the English nation, and other gold-using countries, against us.

The world's international indebtedness is settled, in a great measure, in the money market of London and compared with her vast monetary responsibilities and huge commerce, the gold stocks of England are notoriously slender. Economists have, from time to time, invited the attention of the Government of England to the extreme danger of basing her extensive credit system on such inadequate reserves of Gold, and to the risks of the whole financial fabric tumbling down on a stir in the international political firmament; and have urged on her statesmen the urgent necessity of increasing the England's holdings of Gold.

But as a woman in the heyday of her glory and charm is oblivious of the inevitable ravages of time and resents any suggestions tending to the preservation of her youth and beauty, even so the great English Nation, in the zenith of power and lulled by the soft zephyrs of success and the mild rockings in the cradle of prosperity, scorns at the wisdom of her economists and the advice of her statesmen. Amidst the exultation of a race for credit spinning, she has, evidently, forgotten that old Father Time is no respecter of persons and colour. The Orient may be awed or beguiled by her charming spirit of adventure and bold-

ness and be, even, forced to disgorge her millions for the benefit of the London money market, but the nemesis is relentless in dealing out strict justice—and punishment—even where errors of omission are committed.

Short of Gold themselves and alarmed at their large indebtedness to India in the international trade balance account, year in and year out, the financiers of England have contracted a deadly prejudice against India importing any Gold at all and numerous pretexts and excuses have been invented with a view to mislead the powers that be and thwart the schemes for the introduction of a Gold Currency in India.

Fifteen years ago, this prejudice found its expression in the following typical evidence given by Mr. Lesley Charles Probyn before the Indian Currency Committee, 1898 :

(*Questions put by the Chairman*) You think that if gold coins were allowed to circulate in India, they would be largely withdrawn for hoarding ?—I think so; including in hoarding, tying them round peoples' necks and arms.

And melting them down to make other ornaments ?—Melting them down for ornaments; but I think the greater number of them you would see round the neck and arms of the people. . . . .

At present, Gold is not so very largely used for hoarding and ornaments—not so largely used as Silver ?—Not so largely used as Silver, but it is used to a very considerable extent, there is no doubt about that. May I make this clear to the Committee ? I may be wrong, but my view is this, that if you put gold coins into circulation it will be like, as it were, opening a retail shop at everybody's door. The gold coins are thrust before the people. You, as it were, create a demand for them. They see them. That is my view.

That is to explain the additional hoarding that you fear ?—If the coins are in circulation they will be offered to the people. It is just like putting up a thing in a shop window in the street, except that they have nothing to pay for their manufacture.

If a gold standard is established there will be a fixed ratio between Gold and the Silver rupee, which would make the bargain more easy for him, because he would know how many gold coins he ought to get for a certain number of rupees ?—No doubt it would come to that.

. . . .

It (*i.e.*, Gold coin) would disappear as it came in ?—Yes, and also there is one other point. Of course, there would be a greater demand for Gold on the gold stock of the world. . . . .

Do you think that the withdrawal of Gold for hoarding would make such serious impression upon the stock of Gold in the world as to make it desirable to

prevent hoarding?—It is my individual opinion that it would. Of course, it is only a matter of opinion. You cannot tell at all until it is really tried.

You know how largely the production of Gold has increased?—Yes.

And you know that it will certainly be much more?—Yes.

Do you still think that the hoarding in India might be a danger?—I am quite sure it will be a difficulty.

The question is whether it would be a danger as regards the stock of Gold in the world, a danger in the way of causing a serious appreciation of Go'd?—Hardly, I should think; but, whatever danger there is, I am quite certain it would be accentuated by sovereigns, as we may call them, passing into circulation.

With due deference to the ability and experience of the witness, it may be stated that it is due to the spread of such wrong impressions about the inordinate fondness of the Indians for Gold, and the unproductive uses to which Gold is put in the country, that our efforts for the introduction of a gold currency in India have not hitherto been crowned with success. It is not necessary for me to criticise the opinions expressed by Mr. Probyn. I will let another Englishman,—one who occupied a high and responsible position in life and who was a person of vast experience and wide information—to contradict the veracity of such ideas. The late Sir Samuel Montagu, Bart., M.P., examined before the same Committee, said:

There is now a production of Gold, I believe, unequalled; I think it is 20 millions more than the usual average. You would do a service I think to Europe if you were to gradually utilise this extraordinary surplus of Gold . . . (it) would in no way injure the City of London.

What do you say as to hoarding?—Hoarding is a bogey which may be laid. . . . . . . I do not think there is any hoarding in Russia and I should think that the Natives of India are as intelligent as the Natives in Russia, the bulk of them. As a matter of fact they have been hoarding Gold. I believe there is something like £300,000,000 of Gold now in hoard.

You think there is a large quantity of Gold already hoarded?—Yes; I do not know why it should increase if you introduce a Gold Standard. I should think it would rather tend to diminish.

The production of Gold has considerably increased since the above evidence was given. I believe it is now something like £ 100,000,000 sterling every year; and the economists of the world have seriously proposed that some new outlet should be found for a portion of this excessive output. There is thus still greater reason why the Indian

currency should be based on a genuine circulation of Gold. Apart from the steadiness which such a course would impart to the Indian currency system as a whole—and, by the increase of confidence therein abroad, afford facility for the attraction of cheaper capital to India—the adoption of this measure would result in the absorption of a portion of the world's surplus out-put of Gold in this country; and, as a natural corollary, arrest the unhealthy dearness in prices which a plentiful supply of Gold has caused, and thus tend to simplify the labour problem and troubles in England.

It may no doubt be true to a certain extent that owing to want of opportunity for investment, or lack of attractiveness or because of insufficient faith engendered by centuries of political unrest and upheaval, the people of India took to hoarding the precious metals and were at one time unwilling to disgorge their hoarded capitals. Ignorance and indifferent means of communication also accounted for this tendency. The hoarding of money was quite common in England itself up to the middle of the last century and in some parts of France and Russia the practice is still in force, but none has for that reason ever regarded England or France or Russia as countries unfit for the introduction of a gold currency. The habits of hoarding have now been greatly given up in India, but the old prejudice has in this respect not yet worn out in England. On the contrary every effort is being made to make capital of it and to spread erroneous impressions among the people of Europe and America by portraying the people of this country in all sorts of impossible colours.*

That Gold is now extensively used for *bonafide* currency purposes would be evident from the following unimpeachable official and representative non-official testimony. * *

* "Prominent Financiers and Bullion dealers", says the Hon'ble Montagu De P. Webb, "who "ought to know better (Messrs. Samuel Montagu & Co.,) add to the ignorance and prejudices of the "West by disseminating silly stories about Indians swallowing Gold for medicinal purposes, gilding "the domes of their religious buildings, and using Sovereigns to ornament window panes, etc., as "though Gold were not used for a variety of purposes—not always useful or artistic—in Europe "and America, as well as in India."

* * I am indebted to the Hon'ble Mr. M. De P. Webb's book "*Advance India*" for these summaries.

(*OFFICIAL*).

BURMA. "Gold appears to have been used to some extent in financing the rice trade in Rangoon, Bassein, Akyab and Henzada."

SOUTH INDIA. "The whole (92 lakhs) of the sovereigns is reported by the Bank of Madras to have been issued to their branches at Aleppy and Cochin. Gold has passed freely into circulation in Travancore and its volume is increasing."

UNITED PROVINCES. "There was a considerable increase in the gross receipts and issues of sovereigns during the year, and much of the gold coin issued came back into the Treasuries. In some districts sovereigns were received with revenue collections, proving the use of Gold as currency by the agricultural population."

BOMBAY PRESIDENCY. "The circulation of sovereigns is steadily increasing. The coin is becoming more familiar to the people and is being used for the purpose of crops at up-country places to a larger extent than before. Apparently gold is replacing rupees in connection with trade remittances."

THE PUNJAB. "(*Ambala*). The use of Gold among all classes may now be considered general. (*Gujranwala*)—There has been a very marked increase in the use of sovereigns by the people of this district. (*Gurdaspore*). There is no doubt that the circulation of the sovereigns is considerably larger than it was in the past. This is true of the village bazar as of the urban market. (*Hoshiarpore*). Gold is generally tendered in the Bazar, when making large payments. (*Jhang*). Messrs. Ralli Brothers do not accept Gold; other European Firms and Indian Firms prefer Gold. The people prefer Gold because it is less troublesome than silver money. (*Lyalpore*) Among the agricultural classes, sovereigns are popular and in constant circulation. (*Multan*). A considerable portion of Gold is in circulation and daily transactions in big villages and towns are carried out in gold to some extent. (*Shahpore*) About three-fifth of the Gold issued from the Treasury is in circulation as currency".

Further extract from the Paper Currency Report—All the Treasury Officers "in the Bombay Presidency report that Gold is not being hoarded or melted now "to the same extent as before. . . . .

"The latest estimate of the number of Rupees in circulation is 180 crores. "and the figures for Gold . . . . may be taken to be 60 crores. "The growth of the circulation of Silver has not kept pace with the growth of "circulation of Gold."

(*NON—OFFICIAL*).

The Karachi Chamber of Commerce :—"Sovereigns are now more popular and more widely used as currency than ever before. There is every indication that the peoples of Sind and the Punjab are appreciating the advantages of gold coins, and that the popularity of sovereigns is likely largely to increase".

The Punjab Chamber of Commerce, Delhi.—"Sovereigns are becoming popular and their circulation is increasing. They are accepted as legal tender in the bazars, and this may be attributed to the intelligence of the people."

The National Bank of India, Ltd.,—"Sovereigns. are rapidly taking the place of rupees throughout the Punjab".

The Chartered Bank of India, Australia and China.—"The sovereign is now firmly established in popularity for currency purposes."

The Bank of Bengal (Delhi and Lahore).—"The daily transactions in sovereigns are growing wider."

The whole Indian situation is correctly summed-up in the report issued on 30th July, 1912, by the Commissioner of Paper Currency, Lahore, in the following manner :*

The replies constitute a large mass of evidence which is almost unanimous in declaring that the popularity of the sovereign as currency is greatly on the increase, and that there is practically no part of the Punjab or the Frontier Province where it is not eagerly sought after and accepted.

The reports that are put into circulation by some interested financiers and bullion dealers of London as to the propensities of the Indian people to drain the world's stocks of Gold for burying underneath the Indian soil are nothing but absurd misrepresentations of normal and naturally sound and rational condition of things. Some of the European writers have been so far carried away by such misleading versions as to go to the length of solemnly putting it forward that the world ought to combine to prevent India from receiving payment in Gold for the goods which foreign nations buy from her. Craziness could hardly go further! Every country in the world is at liberty to keep and retain all the Gold she can afford to buy, but if poor India—which has no voice in the comity of independent nations except through her Rulers, and in the determination of whose financial policy what the Hon'ble Mr. M. De. P. Webb describes as "a secret committee "of London financiers whose own interests are of necessity "frequently opposed to the interests of India,"* play an important part—wishes to organise her currency system on the sound and all the-world-over-current gold basis, then heaven and earth are moved to prevent her from attempting to reform her monetary system.

* *Advance India*—Page 58.

That the habits of the people of India in respect of the use of gold coins are not radically different from those of the people in other parts of the world, and that Gold is now actually used on a large scale for genuine currency purposes is testified to by no less an authority on Indian Finance and Currency than Mr. Lionel Abrahams, C.B., Permanent Assistant Secretary of State for India. Examined before the Royal Commission on Indian Finance and Currency, on 6th June, 1913, he stated :

My own opinion is that on the whole it is a good thing that India should have a gold currency . . . . . It is a curious fact that many people who have to use money in the course of their business have an extraordinary affection for the use of gold money, and I think that the people in India, like people elsewhere, if they want gold money and can pay for it in produce or can acquire it honestly should have the opportunity of acquiring it. Indeed it is inevitable ; you cannot prevent people from having Gold if they want it.

Mr. Lionel Abrahams put forward a statement showing that in the Government Treasuries throughout India, there was an enormous transaction in gold coins of late years. The actual figures being :—

GOLD SOVEREIGNS.	1909–10	1910–11	1911–12	1912–13
	(IN CRORES OF RUPEES)			
Received by Government from Importers	10.71	11.44	25.58	25.41
Receipts from General Public.	1.34	5.59	10.30	17.08
Issued from Government Treasuries to public.	2.53	16.61	21.92	32.72

Commenting on these figures he said.

That shows that there is a very considerable flow of sovereigns both out of the Treasuries and Reserves into the possession of the public and in the other direction. These figures, therefore, indicate a very considerable use of sovereigns as currency . . . . I think, it is convenient, India being placed as it is, and the tastes of the people of India for the use of Gold being what they are, that Gold should circulate as actual currency.

The True Remedy.

What India now aims at is to model her monetary system on the lines of the monetary system of England. The present monetary system of England is the growth of centuries of experiments and failures and has now attained a state of perfection and faultlessness unrivalled in any other country of the world. The system of England has behind it 500 years of trials, vicissitudes, scientific investigations and the unanimous arguments of the world's greatest economists and financiers; it has been copied, with perhaps some slight modifications of detail, by one after another civilised nation of the world. When other independent nations come to England for imitating her monetary system, why should India, a dependency of that great and brilliant Nation, be deprived of the benefits of England's experience and wisdom. The responsibility of the organisation of the Indian monetary system so as to bring it in harmony with those of other civilised nations rests on the English Government itself, and the longer the reform is delayed the more difficult and more complex the problem becomes and the more expensive, but not the less inevitable, will the reform be in the end.

One country after another has abandoned Silver currency, so that now not a single civilised nation gives Silver the place of honour in her currency system. Acting on the advice of her economists, England abandoned this form of currency over a hundred years ago, but, despite its great fall, silver is yet saddled on the Indian people with all the pertinacity of the Middle Ages.

India's commercial and economic condition cannot adequately improve itself—nor can India take up her right place amidst the nations of the world—if she is kept tied down with antiquated and out-of-date theories of currency, and arbitrary notions of State management and control in this respect.

The least that the Government of India and His Majesty's advisers in England could now do to repair the enormous injustice done to India, is to undo the errors made by their predecessors-in-office in forcing a Silver Currency on her; and to restore a genuine Gold Currency by the opening of Indian Mints to the unrestricted coinage of Gold. This can be done with great facility, and without incurring any expenditure worth the name, if the Government will only show a resolute will and firm determination. There can be no monetary peace in India unless and until this reform is accomplished. Equipped with a sound and genuine form of modern gold currency, and with Open, Free, Gold Mints, India will be a source of great financial strength to England and to the British Empire at large.

CHAPTER III.

Indian Mints and the Free Coinage of Gold.

There is now no real standard of value and no automatic process, certainly no effective automatic process, of regulating the currency. I think this may be exceedingly dangerous to the interests of any country, and I do not believe that any Government in so large a country as India is wise enough or has information enough to enable it to regulate the currency. There ought to be some automatic process whereby if a demand comes for currency it can be supplied independently of the will of the Government. . . . . The principle would be that the holder of Gold must have the right to go to the Indian Mint and have the Gold converted into what would be a current coin, which would be legal tender.—*Extracts from evidence of the Earl of Northbrook, Ex-Viceroy of India, before the Indian Currency Committee of 1898-99.*

What is a Mint?

A Mint is described by Mr. Webb as "a Government "manufactory at which the precious metals are tested, cut "into pieces of convenient size for monetary purposes "and stamped with a Government mark. The object is "to enable the public to see at a glance that the precious "metal in circulation as money is of good quality and pro-"per weight."

Mr. E. Rigg, C.B., I.S.O., Superintendent of the Royal Mint, Tower Hill, is stated to have given the following description of the work performed by the Open, Gold Mint in London :—

(1) The free coinage of gold presented by the public for conversion into full-value, legal-tender money.

(2) The coinage and issue of token Silver and Bronze coins as they may be required, from bullion purchased specially for that purpose by the British Government.

(3) The execution of coinages required by some of Britain's Colonies and Dependencies ; and,

(4) The manufacture of Naval, Military, and other medals; and miscellaneous duties.

The functions included in paragraphs (2), (3) and (4) are already discharged by the Government Mints in Calcutta and Bombay.

1899.

Recommendations of the Fowler's Committee.

With a view to the establishment of a gold currency in India, the Indian Currency Committee of 1898-99, made the following recommendations :—

We are in favour of making the British Sovereign a legal tender and a current coin in India. We also consider that, at the same time, the Indian Mints should be thrown open to the unrestricted coinage of gold on terms and conditions such as govern the three Australian branches of the Royal Mint. The result would be that, under identical conditions, the Sovereign would be coined and would circulate both at Home and in India. Looking forward as we do to the effective establishment in India of a Gold Standard and Currency based on the principles of the free in-flow and out-flow of gold, we recommend these measures for adoption.

The recommendations of the aforesaid Committee in respect of the declaration of the British Sovereign as legal tender in India were duly given effect to by the passing of Act XXII of 1899, which provided that "Gold coins, "whether coined at Her Majesty's Royal Mint in England, "or at any Mint established in pursuance of a Proclama-"tion of Her Majesty as a branch of Her Majesty's Royal "Mint, shall be a legal tender in payment or on account "at the rate of fifteen rupees for one Sovereign".

In regard to the throwing open of the Indian Mints to the unrestricted coinage of gold coins, Sir Clinton Dawkins announced in the Imperial Legislative Council of India, in March 1900:

It has been decided to constitute a branch of the Royal Mint for the coinage of Gold. The terms of the proclamation to be issued under the Imperial Coinage Act have been settled, and we are now merely awaiting until the Royal Mint has satisfied itself as regards the mint premises and appliances at Bombay . . .

. The gold from the Mysore mines is, indeed, already reaching us in anticipation of coinage, and we count upon receiving an annual increment to our stock of Gold from one and a half to two millions from this source *.

* In 1912, the output from the Mysore gold mines was worth £2,158,271.

The Government of India showed no hesitation in taking the initial steps necessary for the establishment of a Gold Mint in India. Sir Clinton Dawkins was so enthusiastic over the proposal and sanguine about its success that he went so far as to declare, on behalf of Government, that "India has at length emerged from a "period of transition in her currency, has reached the "goal to which she has been struggling for years—has "established a Gold Standard and a Gold Currency".—(March, 1900).

1899—1902.
Treasury's Opposition.

The proclamation referred to has never been issued. What appears to have actually happened was that the Government of India and the Secretary of State matured among themselves a scheme, and the terms of the proclamation to be issued, for throwing open the Indian Mints to the free coinage of gold. The London money market had never favoured the idea of the grant of opportunities for gold coinage in India as it was feared that since the balance of trade with Britain is almost always in favour of India, facilities of coining gold in the country would act as a powerful incentive for the importation of gold bullion into this country and, as the stocks of gold reserves in England are already very low, this drain would adversely affect the financial stability and credit of the English nation abroad. The Indian Government, at Home and in this Country, were not—to be fair to them—deterred by these considerations. But the Treasury authorities, yielding to the influence of the London Bankers, raised "a "succession of technical difficulties in a spirit of scarcely "veiled hostility to the whole proposal". The Government of India remained firm in their determination and sought to meet every objection raised by the Treasury. At one time, difficulty was created on the question of dispensing with the charge for coinage. This was in due course disposed of. At another, the suitability of the Mint build-

ings, appliances and staff at Bombay were made the object of serious criticism by the Treasury. These matters, too, were adjusted. Then, a conference appears to have been held in May, 1901, between the Deputy Master of the Royal Mint and an officer of the Government of India, at which a plan was agreed upon. This scheme was submitted to the Treasury for their formal approval.

"At this point in the negotiations,"—Says Professor John Maynard Kenyes in his most excellent work on "Indian "Currency and Finance" (Professor Keynes is a member of the Royal Commission appointed to investigate and report on the whole matter of Indian Finance and Currency)—"the natural instincts of the Treasury officials became "uncontrollable, and respect for the independence of the "India Office had to be abandoned. Their first line of "defence in the form of technical difficulties having been "overcome, they fell back upon open argument as to the "wisdom from the Indian point of view of the whole "project."

The controversy culminated in the following terse expression of opinion by the Treasury :—

While expressing their satisfaction that an agreement has been reached, my Lords think it desirable, before practical steps are taken to carry out the scheme, to invite Lord George Hamilton to review the arguments originally advanced in favour of the coinage of the Sovereign in India, and to consider whether the course of events, in the two years which have elapsed since the proposal was made, has not tended to diminish their force, and to render such advantages as are likely to accrue from the establishment of a branch mint wholly incommensurate with the expenses to be incurred. . . . .

The Gold Standard is now firmly established, and the public requires no proof of the intention of the Indian Government not to go back on their policy, which is beyond controversy. Sovereigns are readily attracted to India when required under existing conditions. . . . .

On the other hand, the estimates of the Government of India of gold available for coinage in that country are less than was anticipated, nor is any considerable increase expected, at any rate for sometime . . . . The staff would have to be maintained in idleness for a large part of the year at considerable cost to the Indian Exchequer. . . . . . . It is of course for Lord George Hamilton to decide whether, in spite of these objections, the scheme is to be proceeded with.

In reply to the above, the India Office said :

The establishment of a mint for the coinage of gold in India is the clearest outward sign that can be given of the consummation of the new currency system ; and to abandon the proposal now must attract attention and provoke criticism and unrest. . . . . . His Lordship is not inclined to abandon the scheme at the stage which is now reached.

The Board of Treasury, getting hot-tempered in the duel, sent the following astounding answer :—

> Indian currency needs are provided from other sources and there is no real demand for the local coinage of sovereigns. My Lords cannot believe that the position of the Gold Standard in India will be strengthened, or public confidence in the intentions of the Government confirmed, by providing machinery for obtaining gold coins which is neither demanded nor required by the mercantile community; while on the other hand, the failure or only partial success of a Gold Mint would undoubtedly be pointed to by the opponents of the Gold Standard policy, although without justification, as evidence of the breakdown of that policy. The large measure of confidence already established is sufficiently indicated by the course of exchange, since the Committee's Report, and still more by the readiness with which gold has been shipped to India. This confidence is, in the opinion of this Board, much more likely to be put in jeopardy by such a result, of which the danger is by no means remote, than by the frank abandonment of one of the details of the policy recommended by the Indian Currency Committee, which experience has shown to be unnecessary. *

It need scarcely be mentioned, in view of what has been written before and of subsequent events in the history of the monetary growth and requirements of India, that the above theories were fallacious and unsound. But it had the intended effect with the India Office in vanquishing —or, may be, misleading,—the Secretary of State for India.

The Gold Mining Companies of Mysore got nervous at the delay occasioned by the Treasury's hostile attitude with regard to this question, and, despairing of ever coming to satisfactory arrangements with the Government of India for the conversion of their gold into money at the Bombay Mints, reluctantly entered into agreements with the London bullion dealers for the disposal of their products in England.

The news of these agreements proved, if I may use a metaphor, the last straw on the camel's back. Faced by such over-whelming odds, the Government of India became totally despondent of their success. The iron will of the Treasury prevailed. To cover their submission with a show of good grace the Government of India gave the following explanation of the change in its views, in a despatch addressed to the Secretary of State for India in December, 1902 :—

* The cool effrontry with which the Treasury brushed aside one of the most important recommendations of the Indian Currency Commission, 1898, and suggested for its abandonment has always been viewed with great amazement in India, where such commissions are regarded with a certain hollow of superiority and any disrespect exhibited towards their deliberations tends to create distrust in, and lowers the prestige of, the Administration as a whole in the Indian mind.

We have now ascertained that the chief mining companies have made arrangements, with which they are at present satisfied, for the regular sale of their gold in London; and we are doubtful whether any terms that we could offer with a due regard to our own interests would induce them at an early date to alter those arrangements and to bring their gold to the Mint in Bombay. In the absence, therefore, of an assurance that a steady and permanent supply of gold of local production would be available for coinage in this country, we prefer to drop the scheme for the present, leaving its revival to the existence or revival of conditions which cannot at present be foreseen.

The Secretary of State saw the helplessness of the situation and accorded sanction to the project being postponed.—(February, 6, 1903).

In abandoning the scheme in the above manner, the Indian Government—it need hardly be said—showed considerable weakness in their position, for there was absolutely no necessity to get an assurance of a steady supply of gold from the Indian Gold Mining Companies, or from any other gold owner for the matter of that, as a condition precedent to the establishment of a Gold Mint in India. The mere fact that England's trade with India results, almost in every year, in a substantial balance in India's favour was—and will always remain—the strongest guarantee that gold will be imported into India, unless the India Office deliberately and of set purpose prevents it, as it has persistently done of late, by the transference of the bulk of India's cash balances and reserves to England. The gold produced in England is, I believe, a most negligible quantity and yet the absence of a sufficient local supply of the precious metal has never been advanced as a plea for suspending the coinage of gold in the Royal Mint of London, on the maintenance of which, in first class order, the English Exchequer spends large sums of money every year. It would be just as fair to transfer the London Mint with all its officers and staff to, say, Cape Town—in order to coin the South African gold into coins on the spot—as to plead that India should be deprived of the convenience of a Gold Mint because a regular and adequate local supply of gold could not, in consequence of Government's own dilatoriness and indecision, be assured for a particular space of time.

The Government of India, in having been obliged to drop the scheme, under the weight of extraneous pressure, seem to have felt the awkwardness of their situation to such an extent that "no public explanation was given in "India of this sudden recession from what has hitherto "been regarded as an essential feature of the currency "policy inaugurated in 1893 and definitely established on "the recommendations of the Currency Committee of 1898". (Extract from a letter dated 16th May, 1912, from the Government of India to the Secretary of State).

1911.

Sir Vithaldass Thackersey's Resolution.

The graceful reference by Sir James Meston, then Financial Secretary to the Government, in the course of his speech in the Budget debate in 1910, with regard to the Gold Currency policy of the Government of India, again kindled hopes in the hearts of the Indian people and public enthusiasm and vigour was roused.

A discussion was raised in the Imperial Legislative Council in consequence of Sir Vithaldass Thackersey's speech, in March, 1911, in support of the issue of an Indian gold coin from one of the Indian Mints. A year later on 22nd March, 1912, Sir Vithaldass moved a resolution "that "this Council recommends to the Governor-General-in-"Council that the Indian Mints be now thrown open to the free coinage of gold in coins of suitable denominations".

In his reply, on behalf of the Government of India, Sir Guy Fleetwood Wilson, Finance Member, had to admit that no subject of a purely financial character had in his time attracted so much attention and support (which is a positive proof of the lively interest taken by the public in the re-opening of the Indian Mints.) The Government had gone thoroughly into the subject, and were of opinion that there had been such a change of conditions (since 1902) as fully just fied the reviving of the question. It was true that the Government got no good of Indian production, but that was simply because they could do nothing with it

if it was offered to them. The currency system of the country had been through the fiery trial of 1907-08, and the need for strengthening their gold holdings had been brought home to them. The currency habits of the people were changing. Gold was being more freely taken in payment for agricultural produce. Sir Guy instanced the rapid increase in the circulation of currency notes, specially since the notes of the lower denominations were made universal, which went far to indicate that the people were ready for a handier form of currency than Silver and for a higher unit than the Rupee.

He spoke about the misrepresentations that had been made in respect of the proposal. It had been suggested, for example, that the scheme contemplated a large loan for the purchase of gold, coins whereof would be forced upon an unwilling people on an enormous scale, thereby producing a serious fall in the value of silver and considerable hardship to the poorer classes. Another suggestion was that between buying gold and paying interest on the coinage loans the Government would be throwing away large sums of money which were required for Education and for the extension of Railways and Irrigation; taxation would be multiplied, the gold would disappear as soon as it was coined, and the exchange position would be as bad as ever.

All such suggestions were groundless and he sympathised with Sir Vithaldass in his warm repudiation of this description of his proposal, which was merely to open a Gold Mint on a small scale, with a gold refinery attached to it, so that it may be able to handle either raw gold from the mines, or ornaments and other alloys that may be offered for conversion. There was no intention of borrowing, or of buying gold, or of forcing it upon the people, or of coining a single sovereign, except from bullion which was brought to the mint voluntarily for the purpose.

The Finance Member also referred to the criticisms that had been made urging that the sovereign was an expensive coin; that the Government got no profits from it

such as they did from the rupee; that they would have to bear the loss of wear and tear. To this objection, he remarked, he could not attach importance knowing as he did the comparatively small cost at which the gold currency of the United Kingdom was habilitated by the late Lord Goschen.

A further argument against the proposal was that the free coinage of gold in India would draw off a larger quantity of gold from the European markets than India obtained hitherto, and that consequently business and trade would suffer in gold-using countries. This apprehension had set the whole of the interests of the gold-using countries against their proposal. But it was doubtful whether the proposal, if carried out, would have the effect of increasing the aggregate quantity of gold of all sorts which came in the country to adjust the balance of trade.

As against the above arguments, there were Sir Vithaldass's weighty considerations. The coinage of gold in the country would enable large quantities of bullion which were now in the country to be converted into legal tender coins. With greater familiarity the sovereigns would pass more freely into active circulation, which would diminish the pressure on the Government for the coinage of fresh rupees and simplify exchange difficulties.

On the assurance of the Government of India that they would refer the proposal to the Secretary of State for sanction, Sir Vithaldass withdrew his resolution.

When the matter was referred to the Treasury officials in England, they again raised obstacles and "the very "modest, inexpensive scheme of the Government of India "was not really practicable". The idea of the Government was to let the staff of the Bombay Mint do the work of coining Sovereigns when they were not coining rupees. But the Treasury insisted that whatever mint was used for the coinage of Sovereigns must be under the direct control of the Treasury. Mr. Lionel Abrahams, Assistant Under-

Secretary of State for India, in the course of his evidence before the Royal Commission on Indian Finance and Currency, 1913, stated that even the proposal to put each officer of the Bombay Mint under two masters, namely, the Government of India for Rupee purposes and the Imperial Government in England for Sovereign purposes, did not meet with the acceptance of the Treasury. As a way out of the difficulty, the Secretary of State then suggested to the Government of India the coinage at Bombay of a ten-rupee gold piece as originally recommended by Sir Vithaldass Thackersey. The Government of India have indicated their preference to accept this proposal, but the whole matter is left open, pending the recommendations of the present Royal Commission.

1913.

Fresh Evidence.

A brief summary of the evidence given by a few witnesses before the Royal Commission on Indian Currency and Finance, which held its sittings in England in 1913, on the advantages of re-opening of the Indian Mints, would I believe, be found interesting and indicate the trend of public opinion on this question.

Mr. Bhupendra Nath Mitra, M.A., C.I.E., Assistant Secretary and Budget Officer in the Finance Department of the Government of India, stated in the course of his examination by the Right Hon'ble Mr. Austen Chamberlain, M.P., Chairman of the Commission :—

I think myself that we ought to have a Gold Mint. The main reason is that we ought to have some means of coining a gold coin in India. It would help us in the maintenance of the Gold Exchange Standard to have a larger circulation of gold in India, and though it is true that we get our requirements by the import of sovereigns into the country, a Gold Mint in India would indicate to the public at large that Government was certainly earnest in its endeavour to foster gold circulation in the country. It would also attract to the Mint the amount of gold produced in the country itself, and this amount would be turned into sovereigns there.

I think some years ago—I have not the exact year is my mind—the Government of India withdrew its proposal for the opening of a mint at that moment because they found that all the gold produced in the Indian mines was under contract of sale to London. Do you know whether that condition of things no longer

exists ?—No, I could not say anything definite on the point, but it seems to me that, once we open the mint, the contract is bound to be terminated, and we will get that gold in our mints.

Is that necessarily so ? I presume that the mines have heavy remittances to make to London ; their shareholders are in London. May it not pay them to remit their gold direct to London and tender it here ?—It may be so. But they could arrange for these remittances easily by tendering the gold in India and getting payment against it in England through Banks.

Would you propose to charge any seigniorage on gold coinage ?—No, nothing. Of course, we should have to charge something for refining the gold, but nothing in the the way of seigniorage.

Do you think, apart from the gold produced in mines, much gold would be brought out of hoards in consequence of the opening of a mint ?—It may not be immediately, but it is possible that at times of stringency, during periods of famine after the country has been saturated with gold, gold ornaments will come out from hoards and be sent to the mint for coinage.

Mr. James N. Graham, representing the Bombay Chamber of Commerce, asked if his reasons for favouring the opening of a mint in India, were sentimental rather than practical, repudiated the idea and said that he did not admit that they were sentimental ; but because he thought it was a matter of public convenience that anyone who had gold bullion in any shape might go to the mint and get it coined.

In view of the valuable services rendered by the Honourable Montagu De P. Webb, C.I.E., President of the Karachi Chamber of Commerce, to the cause of Gold Currency, and his learned and forcible writings on the subject, his evidence carries a particular importance and charm about it. I have, therefore, subjoined it *in extenso* at the end of this treatise as Appendix B. In the course of his oral examination, Mr. Webb further stated :—

Will you please explain to me what advantages you think the opening of the mint would bring to India ?—One advantage, in the first place, would be that movements in the foreign exchange would be regulated automatically, it would facilitate their regulation automatically. The other advantage is that it would also facilitate the growth and development of a gold coinage.

Taking the first point I do not quite follow your meaning when you say that it would facilitate the automatic regulation of exchange ; in what way would it do that ?—It would enable the public at all times to present gold for conversion into sovereigns whenever they required them and would therefore give them another means of putting themselves in funds, in cash, than at present exists.

Am I to understand that the advantage in that respect would be derived from the facility for coining the gold which is now in India ?—That is one of the advantages. . . . . In times of danger and emergency it would afford a means of turning the savings of the people in the hoards into money rapidly. In past famines and in past times of trouble, metal has been produced from hoards, and I think a similar experience would occur again.

You propose, I take it from what you have said, that no seigniorage should be charged on the gold coined at the Mint ?—Certainly not.

The principal advantage which you would expect to derive is that you would increase the amount of gold coin in circulation ?—That would be one of the tendencies.

Is there any other advantage ?—The advantage is that the country would be fitted with what I regard as an essential part of its monetary mechanism. I regard it as an essential part of its currency mechanism that it should have a mint at which money could be coined at the requisition of the public.

I want to get exactly at your reason why that is essential. Am I right in thinking that you consider it essential to a proper currency system that there should be a gold currency ?—Yes.

And essential to a gold currency that there should be a gold mint ?—Yes, on the spot in India itself. . . . . It would do away, in a measure, with the management by the Secretary of State of the Foreign Exchanges, in that there would be always the mint at which the public could convert their gold into legal tender coins in the event of the Secretary of State taking any action of which the public did not approve. It is a safeguard so to speak, an additional safeguard, that the people of India can on the spot obtain their own money on presentation of the metal.

Regarding them as an additional safeguard of exchange, the sovereigns coined a the mint must be exported, must they not ?—Not necessarily.

How would they support exchange without being exported ?—The actual support is not exercised until the time comes for their exportation, but the fact that they exist and can be exported when needed, is a sufficent practical support to exchange. It establishes confidence.

That is to say, if I understand you rightly, the more gold you have in circulation in India, the greater the reservoir on which you have to draw for the support of exchange in a time of crisis ?—Yes; and if the tap to that reservoir is in your own possession and can be controlled by yourself, you feel still more confident.

Mr. H.F. Howard, C.I.E., I.C.S., for some time Secretary to the Government of India in the Finance Department, now Collector of Customs, Calcutta, stated :—

I am in favour of opening a mint in India for the free coinage of gold. . . . . . I should prefer the sovereign to a special Indian coin, such as a 10-rupee piece. I do not think that any seignorage should be charged on the coinage of the sovereigns. The result of the imposition of such a charge, unless it were purely nominal, would apparently be to stultify the action taken in opening

the mint. . . . . . It may be that the opening of a mint would not directly or immediately operate to increase the circulation of gold. It appears to me, however, to be anomalous that though gold is now the standard metal of the Indian Currency, gold bullion in India can only be converted into legal tender currency in India by being sent to England (or Australia) and there coined into sovereigns. It would at present not even be possible, should circumstances draw gold ornaments or bullion out of hoards to reconvert these into standard coins otherwise than by this roundabout process.

(*Orally examined*)—I think it is a duty which we (the Government) owe to the public, if they present bullion when we have nominally a gold standard, that we should be prepared to convert that into coin.

Mr. Thomas Smith, late Vice-President, Upper India Chamber of Commerce, and Agent of the Allahabad Bank, Limited, Cawnpore—a gentleman of 18 years' experience in India—said : "On the whole I favour the opening of a "mint in India for the free coinage of gold. I believe it "to be one step further in the development of our currency "system . . . . I do not "approve a 10 rupee gold coin ; it would be little bigger "than a half-sovereign, and this coin does not find favour "in India. The coin to be minted should be a sovereign "identical with the British Sovereign".

The oral examination of Mr. Thomas Smith by the Chairman of the Royal Commission is very interesting. It reveals some of the stock arguments advanced against the extension of Gold Currency in India and indicates how through a maze of suggestions and arguments unwary witnesses are sought to be led over to support the orthodox official views.

Suppose you were an autocrat administering the Government of India and you saw that you could encourage the circulation of gold at the expense of rupees or notes, or the circulation of notes in preference to gold, what course would you take ?—If I wanted to make money for the Government I should try to give them as many rupees as possible. If I wanted rightly to administer in the interests of the people of India I should try to give them as much gold as possible.

Is there not a real reason in the interests of the people of India and not merely a money making reason, why the Government of India should discourage the circulation of gold and increase the circulation of notes or rupees ?—No, the Government can have their own reserves of Gold, and centralise their reserves.

How do they get those reserves ? Are not those reserves dependent on the amount of notes, and the amount of rupees which they put into circulation ?—Yes, that is so.

If for notes or rupees you substitute Gold in circulation, you automatically stop the accumulations of the reserve of Gold ?—The reserve of Gold must suffer in consequence if you are forcing Gold out, but I am not arguing that.

I think you put it to me that the Government should remain neutral in this matter ?—Yes.

I am suggesting to you that in the interests, not alone of the Government, but of the people of India, the maintenance of exchange being their first interest in your opinion, the Government should not be neutral, but that it should encourage the circulation of notes wherever it can, rather than the circulation of Gold ?—Yes.

You see, perhaps, the line of argument indicated in my questions ?—Yes, I see it.

On the whole do you agree with me, or do you differ ?—I should say that the balance lies in favour of developing the note circulation.

And keeping Gold in reserve rather than putting it into circulation ?—Exactly. I am not urging that the Government should force Gold but that it should be optional, and if a man expresses a preference for Gold the Government shou'd endeavour to meet it.

In the light of those considerations, what is your reason for favouring the opening of a Gold Mint ?—The reasons are very fully stated by the Government of India, and on the whole I think I agree with them.

Will you just give them to me ?—The main thing was, of course, that there might be Gold which is absorbed now, or is hidden now but that might be converted. One never knows when that occasion might arise. It would be there for that purpose ; and there are times when it might be more expedient to import bullion, and have it coined in India.

Put the case of some crisis forcing gold—bullion—out of hoards or out of savings : I suppose what you have in your mind is a famine which brings pressure on the individual and forces him to bring out his savings to live upon ?—Yes.

That would be a small man with a small amount of bullion, I suppose ?—Yes.

The total might be large, but in each individual case it would be smal' ?—Yes.

An individual could not go direct to the Mint to get his own little store coined; he would sell it as bullion ?—Yes.

And it might pass perhaps through two or three hands before it reached the Mint ?—Yes

Do you think, under those circumstances, there would be any real advantage to anybody in being able to take the bullion to a Mint in Bombay, rather than in sending it Home to be coined ?—There probably would be a balance of advantage in getting it done there instead of sending it Home to be coined.

Where wou'd the sovereigns be wanted when they had been got ? The individual who had brought out his little hoard would want rupees, would he not ?—The sovereigns would remain with the Government.

When the bullion had been taken to the Mint and coined into sovereigns, what do you suppose the man who had got the sovereigns would do with them. take them to the Government I think you said just now ?—Yes.

They would get into the Government treasuries ?—Yes.

And from the Government treasuries what would be the next step ? Would they stop there until they were wanted for the support of Exchange ?—Yes, until they were wanted for the support of Exchange.

And when they were wanted for the support of Exchange where would they be wanted ?—They would have to go to London.

Would it not be just as well if the bullion had gone there at once instead of passing through Bombay ?—Yes.

Do you think there is any real advantage in the opening of a Mint to Gold in Bombay ?—I do not say that it is going to do everything, but there is an element in its favour.

Rather of sentiment, perhaps, than of very concrete advantage ?—There is a good deal of sentiment in it, yes. I say 'on the whole' I favour it.

Mr. William Bernard Hunter, Secretary and Treasurer, Bank of Madras, examined, said: "The mints are closed "to silver, and I think it is reasonable that the holders of "precious metal should be enabled to turn it into coin of "the realm; and in India especially what I really had in "mind is that in times of scarcity those that had gold "should be able to convert it readily into coin or the "equivalent."

Mr. F.C. Le Marchant, a member of the Indian Currency Commission of 1898, said that the Indian Currency Commission of 1898 attached importance to the opening of a mint in India for gold coinage because "there was no doubt "that if it (*i.e.*, gold produced in India) had been minted "and remained as coinage in the country, after a succession "of years it would have become an appreciable item. I "think also there was the idea that it fell in with the senti-"ments of the country. . . . . . "I am "aware the opinion is held by people of great Indian ex-"perience that minting a purely Indian gold coin would be an advantage".

The Hon'ble Sir Alexandar McRobert, who had been President of the Upper India Chamber of Commerce, Cawnpore, for nine years, and is closely connected with India's premier Woollen Mills in Dhariwal and Cawnpore, expressed the following opinion :—

I am inclined to believe that the advantages of opening a mint for the free coinage of sovereigns would justify the cost. There is the question of prestige as well as convenience. I would point out that the Indian mints, as now run, make a profit of over £100,000 annually even when they are slack and coining no new rupees from purchased silver.*

The Cement of the Empire.

Enough has been written to indicate that there is a large and growing volume of well-informed, intelligent and most weighty and respectable opinion—both official and non-official; European and Native Indian—warmly advocating the throwing open of the Indian mints to the unrestricted coinage of gold. And by reason of its world-wide use and interchangeability as well as the popularity already attained by it among all classes of the Indian population; and as felicitously described by Sir Shapurji Broacha in a metaphor,—owing to its being "the cement of the Empire"—the balance of opinion is in favour of the coinage of British Sovereign as the standard coin of India. It would appeal equally to the patriotic sentiments of all sections of His Imperial Majesty's subject and may serve as a link of union binding the dominions of the King-Emperor lying scattered all over the globe.

If the objections of the Board of Treasury, to which a reference has already been made, be really insuperable and if, indeed, the red-tapism of the Treasury is so rigid that they cannot see their way to make any concession to the wishes of the vast Indian population,—comprising the largest and the most important section of the King's dominions—then a distinctively Indian coin of the same weight, fineness and size as the British Sovereign may be coined, to ensure its interchangeability in course of time.

The size, equipment and details of control of the managemnet of the Mints are, of course, matters which the Government of India would thresh out and settle them-

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* In the course of his oral examination, Sir Alexander McRobert said: "My own practice "ever since the sovereign was made legal tender, has been to pay all wages in gold as far as it "would go, that is, so long as we could get gold. For about three years we could not "get gold—about 1907-8-9—but when we can get gold we invariably used it for paying "wages. I think on the whole it is (an advantage that they should use gold as currency). It is "more portable, it is easier hidden away, and after all it is the standard of value throughout the "world. The ordinary native—I am speaking now of the small man, the workman—does not handle "notes much. It is metallic currency that he believes in."

selves with the Home Government. But in view of the growing importance of Delhi as an Imperial centre of the Empire, and of its being within equal reach of all the remote parts of India, I think it would probably be preferable to locate the New Gold Mint in Delhi. It has, I believe, been already decided by the Government of India that in the event of a gold mint being opened no seignorage will be charged. To do so would be to stultify the whole scheme.

1882-1913.

The Mysore Gold Mines.

The steady and solid improvements made by the Gold Mints of Mysore, thanks to the warm encouragement and generous support of the enlightened Ruler of that model Indian Native State, renders the adoption of this scheme, by ensuring a regular supply of the raw metal, eminently desirable.

His Excellency Lord Hardinge of Penshurst, during a visit to the Kolar Gold Fields on 21st November, 1913, paid a glowing tribute to the excellence of the Mysore Government and the Mining Board's management in the following eloquent terms :—

> A striking feature in the record of the mines is the steadiness with which the production has been maintained and gradually increased. This, I understand, is due not to uniformity in the conditions in which the gold occurs but to the foresight and skill with which the mines have been worked and the deeper strata which have been explored. The mines are now showing a gold output of over three crores of rupees per annum, from which the Durbar derives a gross income of 18 lakhs a year. These results exceed, I believe, the most sanguine expectations of the original promoters.

From a few statistics compiled by the Mining Board for the information of His Excellency, it is interesting to know that the investments in the several gold mines in Mysore territories now represent a sum of nearly ninety crores of rupees,—made up as under :—

	£
Mysore Mine	3,050,000
Champion Reef...	1,092,000
Oorgaum..	856,641
Nundydroog	721,650
Balaghat	58,398
Mysore and General Exploration Co...	23,038
West Kempinkote	23,538

The value of the first output in 1882 was £38 worth gold; and in 1912, it was worth £2,158,271. A truly grand record of progress!

If the Government of India even now fail to take advantage of this large local production, and by its coinage and retention in India help in the equalisation of her balance of trade with England, where its equivalent money will be transferred, for satisfaction of share-holders' demands, by means of trade adjustments, what impressions, excepting those of indifference to and disregard for the people's weal, will that course create in the minds of the Indian population?

CHAPTER IV.

The Story of the Gold Reserve.

A Gold Reserve at the Bank of England would, I think, be a financial waste. It might be very good for England to keep a Gold Reserve, but for India to keep a Gold Reserve that might very rarely be trenched upon would be a waste . . . . the great dependence ought to be on Gold deposited in India itself.—*Sir Samuel Montagu, Bart., M.P.*

Its Origin and Growth.

Until June, 1893, a silver rupee did not represent as a piece of currency anything over and above the value of bullion contained in it. Any one could tender silver bullion at a mint and have it melted, cut and marked into coins of the realm on payment of a nominal charge. The rate of exchange, when the mints were closed to free coinage in 1893, stood at about 1*s.* 2½*d.*, that is, the value of Silver contained in the rupee, expressed in gold measure, was equivalent to 14½*d**. The mints were closed with the object of dissociating the rupee—as currency—from the Silver—as bullion. And the first efforts of the Government on closing the mints were, therefore, directed towards raising the value of the rupee in its relation with the English sovereign.

The object which the Government had in view was to raise the exchange value of the rupee to 1*s.* 4*d.* To attain this object, fresh coinage of rupees was, practically, suspended in June, 1893. This suspension continued for a few years and rupees were artificially forced out of circulation; and in accordance with the laws of supply and demand the exchange value of rupee began, steadily, to rise and eventually stood at full 16*d.*† The Government of India are now the sole suppliers of rupees and in virtue of their

* The rate of Silver in 1893 was 39*d.* per ounce. In 1913, it stood at 27*d.* The actual cost of making one rupee now is 10½*d.*

† Before this stage was reached and the exchange value of rupee got consolidated at 1*s.* 4*d.*, India had to pass through severe crisis arising out of the rupee famine. An account of the fierce struggle in the Indian money market occasioned thereby has already been given in Chapter II.

position as the monopolists of the token metal currency, they can always dictate their own terms. The exchange value of the rupee has, therefore, all along stood at 1*s.* 4*d.* except when the India Office has—for reasons of its own—chosen to accept a less value for it.*

As soon as the exchange got steady at 1*s.* 4*d.*, and stood the test of market fluctuations, coinage operations were resumed. Though small quantities of silver were coined earlier, † the coinage of rupees on a significant scale did not recommence till 1900 ; the Government mints were then kept fairly well engaged for some years, the number of rupees coined (less recoinage) being :

	Rs.
1900–01	16,93,65,000
1901–02	3,82,40,000
1902–03	3,24,98,000
1903–04	11,15,53,000
1904–05	7,81,20,000‡

In July 1905, the Government of India stood in a fairly strong position in respect of their silver reserves. The total stock of rupees in the Government treasuries (including uncoined Silver in their possession reckoned at coined value) was 1837 lakhs. They then seem to

* The exchange value of the rupee has often touched 1*s.* 3·875*d.* In order to explain why the lowering of the exchange rate could safely be avoided it would be necessary to explain the procedure by which rupees in India are exchanged for soveregins in England. Houses dealing in Indian commodities have to remit funds to India for the purchase of exports. Instead, however, of sending actual Gold, they pay the money to the Secretary of State for India and the latter advises the Government of India to deliver equivalent value in rupees, to the agents of those houses, from Indian treasuries and he himself utilises those funds for meeting the Home Charges.

The Government being the sole supplier of the rupee and they having fixed a certain price for it, *viz*,—£1 sterling for 15 rupees, it is evident that nobody can get any rupees except either by payment for them to the Secretary of State in England, or by bringing Gold sovereigns to India to buy rupees with. This later procedure involves an extra expense of about ⅛*d.* (1½pie) per rupee on account of sea-freight, insurance and loss of interest for the period of about a fortnight spent in transit. No one can, therefore, bring sovereigns to India from England at less than 1*s.* 4⅛*d.* But sometimes it happens that sovereigns shipped from Australia to England in satisfaction of balance of trade are purchased by Indian export houses *en route*. Again, Egypt has often to remit money to England for commodities purchased. Instead of letting these sovereigns go to England, and then bringing them to India, bankers arrange to pay equivalent money for these coins in England and bring sovereigns direct from Egypt to India. In both of these cases, sovereigns cost somewhat (say, $\frac{1}{32}$*d.*) less. The Secretary of State can, however, always get at least full 1*s.* 4*d.* for his rupee. The policy of selling the rupees at a lower rate exchange than 1*s.* 4*d.* has been the subject of strenuous criticism in India, and it is argued that this depreciation is brought about by excessive drawings.

† The total coinage, less recoinage, from 1894 to 1899 was as follows :—

	Rs.
1894–95	3,04,000
1895–96	24,000
1896–97	nil
1897–98	37,88,000
1898–99	37,25,000
1899–1900	1,32,08,000

‡ Fractions of a thousand are omitted.

have gone to sleep and discontinued the purchase of silver bullion for a short time and did not wake up till December, when the stocks of silver coins had sunk to 761 lakhs (40 % of what they were six months earlier). There was an increase in the demand of Council Bills, in consequence of which the rate of telegraphic transfers temporarily shot up to 1*s*. 4·532*d*. New silver, however, soon arrived and in March, 1906, not only had all demand for currency been met in full but the stocks of silver reserves were double of what they had been three months before.

"This slight scare, however, was more than sufficient"—writes Professor Keynes—"to make the Government loose "their heads. Having once started on a career of furious "coinage, they continued to do so with little regard to con-"siderations of ordinary prudence; . . . . "without waiting to see how the busy season of 1906-7 "would turn out, they coined heavily throughout the "summer months, and, there being more silver in hand "than could conveniently be held in the currency reserve, "it was maintained, at the expense of the sterling resour-"ces in, the Gold Standard Reserve."

Some idea of the extreme limits to which the coinage operations were pursued may be formed from the fact that at the end of three months—in July, 1906—the silver reserve went up to 32 crores of rupees. And though the demand for rupees in 1906-7 was on a large scale, the mints had been kept so busy that the reserves of silver never fell below 20 crores of rupees. "The more than "adequacy of their reserve"—to put the situation in the eloquent words of Professor Keynes—"at the busiest "moment of the very busy season 1906-7 did not check, "however, the impetuous activity of the Mints". In 1907, as in 1906, the Government continued to coin incessantly. In September 1907 the silver holdings of the Government in one form or another stood at the excessively high figure

of about 31½ crores of rupees. The demand slackned and there was great redundancy of currency. It became necessary for the Government to withdraw immense quantities of old silver currency from the circulation.

But all this was of little avail in checking the Government in their policy of a "furious coinage". And though the stocks of rupee reserves have continued to mount steadily, heavy coinage operations have all along been continued regardless of the redundancy thereby occasioned in the country's currency. The amount of rupees coined from 1905 onwards (less recoinage) is as follows : *

	Rs.
1905–06	16,87,67,000
1906–07	23,37,81,000
1907–08	15,69,16,000
1908–09	24,51,000
1909–10	11,39,000
1910–11	19,94,000
1912–13 (Estimated)	15,75,00,000

The coinage policy of the Government of India, says Professor Keynes, suggests these obvious reflections :

A succession of years, in which there is a heavy demand for currency, makes it less likely that the heavy demand will persist in the year following. The effects of heavy coinage are cumulative. The Indian authorities do not seem to have understood this. They were, to all appearances, influenced by the crude inductive argument that, because there was a heavy demand in 1905-6, it was likely that

* It may be interesting to compare the above figures, which are given by Mr. F. W. Newmarch, Financial Secretary at the India Office, with the table of coinage in the Indian Mints, during some of these years, as given by Mr. Kunja Behary Bullav, M.A., B.L., of the Bengal Provincial Service, in his paper on "the Gold Standard in India" (December, 1911) :

Year.	Rupees coined in lakhs.
1893–94	4.14
1897–98	.49
1898–99	.42
1899–1900	1.30
1900–01	17.15
1901–02	4.95
1902–03	11.27
1903–04	16.17
1904–05	10.88
1905–06	19.60
1906–07	25.37
1907–08	17.32
1908–09	2.51
1909–10	2.08
1910–11	2.20

The difference may possibly be explained by the inclusion of old rupees recoined in one of the statements and their exclusion in the other, though if it has been necessary to recoin over 18½ crores of old rupees in twenty years time, this is another proof of the excessive wear and tear and of wastefulness in a silver currency system,

there would be an equally heavy demand in 1906-07; and when there actually was a heavy demand in 1906-07, that this made it yet more likely that there would be a heavy demand in 1907-08. They framed their policy, that is to say, as though a community consumed currency with the same steady appetite with which some communities consume beer. In so far as the new currency is to satisfy the demands, not of hoarding, but of trade, it is hardly necessary to point out the fallacy. Moreover, even a superficial acquaintance with the currency history of India brings experience to the support of reason. Even when the rupee was worth no more than its bullion value, so that it was hoarded and melted much more than it is now, years of unusually heavy coinage were nearly always followed by a re-action.

It may be added to the above observations that since their artificial enhancement of value, rupees are not used at all for melting down to make ornaments. The habits of hoarding have, also, to a very great extent changed and there is very little hoarding of rupees now in vogue.

There is a general feeling that the heavy coinage operations carried on during the recent years have not had so much the object of meeting genuine demands of currency in view as to earn larger profits on the coinage of rupees and transmit those profits to England. I may cite the opinion expressed by a paper of the respectability and high standing of the *Times of India*, in a leading article published in its issue of 1st February, 1912:

The greed for coinage profits must be given up. It is debauching. It has debauched the London authorities into taking from the pockets of the public for Gold Reserves, while making it appear that they were depending on reserves from coinage profits alone.*

It is difficult to avoid the spread of such ideas when the coinage of rupees is resulting, as it did from 1910 to

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* Impressions like these gain strength from such statements of the Government of India as the following contained in their despatch dated 3rd March, 1898, to the Home Government:

"The average annual addition to the currency when the mints were open was about Rx. "7,000,000, of which, however, a part only, perhaps half, was a permanent addition, an amount "equivalent to the remainder being removed from the circulation principally for the purpose of "conversion into silver ornaments".

So, up to 1893, a fresh net addition of about 35 lakhs a year to the currency was considered quite adequate. This was the current opinion of the country when the Fowler's Committee held its sittings in 1898. Mr. Merwanjee Rustomjee speaking before the Committee, on 16th November, 1898, stated:

"The meaning of this Government estimate is that Rx. 3,500,000 of currency were added "every year to the existing coinage for the necessities of India. If the country were left to automatic "currency, it would absorb every year Rx. 3,500,000 of fresh coin to supply its needs. The mints "being closed in June, 1893, the currency starvation to the country in the five years has been to the "extent of Rx. 17,500,000, less about 2,000,000 coined for the banks immediately after the closure, "and Rx. 2,000,000 received from the Currency Department; the deficit has been, in the matter of "fresh coinage, Rs, 13,500,000, which alone would have kept the circulation to its normal condition."

The growth of trade and industries in the country may perhaps have necessitated a somewhat larger mintage of rupees but the expansion could not, certainly, have been so great as to justify the enormously heavy minting of the recent years.

May 1912, in a net average profit of about 42 % of the nominal value.

The term at present given to the profits on coinage in the official terminology is the "Gold Standard Reserve". It appears from the Government of India Notification No.406-F, dated 28th March, 1913, that the total amount at the credit of the Gold Standard Reserve fund stood on the 31st December, 1912, at £21,543,171, or at 1*s.* 4*d.* equivalent to Rs. 32,31,47,565.*

The bulk of this large amount was transferred to England and held there in the following manner :

	£
Gold set aside in the Bank of England. . ..	250,000
Invested in the London money market by the Secretary of State for India-in-Council subject to recall at short notice	1,013,690

In addition to this, securities of the face value of £17,501,513 were held in England as under :

(*a*) *Securities which are either unredeemable or which will mature after long periods of time :*

	£
British Government $2\frac{1}{2}$ % consolidated Stock .	4,665,770
Local loans 3 % stock	200,000
Irish Land $2\frac{3}{4}$ % guaranteed Stock	438,720
Transvaal Govt. 3 % Guaranteed Stock (1923-53)	1,092,023
Total	6,396,513

* The amount, composition and location of the Gold Standard Reserves on 31st March, 1913, stood as under :

IN ENGLAND.	£
Securities at Market Value	15,945,669
Invested in London with Banks and individuals, on interest, subject to recall at short notice	1,005,664
Gold deposited at the Bank of England	1,620,000
Total	18,571,333
IN INDIA.	
Silver	4,000,000
Grand Total	£ 22,571,333

(Converted at 1*s.* 4*d.*, in Indian currency, Rs. 33,85,69,995).

(*b*) *Securities which are due for redemption within the next five years of time:*

	£
British Treasury Bills, (due 1913)	2,400,000
Exchequer bonds (redeemable 1913–16) ..	6,935,600
Canada 3¾ % bonds (due 1914–19)	161,000
Corporation of London Debentures, 3¼ % and 3½ % (redeemable 1913–15)	145,000
New Zealand 3½ % Debentures, (due 1914–15)..	246,400
Queensland 4 % Bonds and Stocks, (redeemable 1-7-1915)..	150,000
New South Wales 4 % Bonds and 3½ % Stock (redeemable 1915-18)	117,000
New South Wales Treasury Bills, (due 16-5-1913)	250,000
Southern Nigeria 4 % Bonds, (due 15-9-1916)..	100,000
Union of South Africa Bills, (due 1-4-1913) ..	600,000
Total ..	11,105,000
Grand Total,	£ 17,501,513

The above securities were valued on 30th September, 1912, at market price of the day at £ 15,965,148.

The procedure of withdrawing India's Gold Reserves and investing or holding them in bullion in England has caused considerable discontent in India

Recommendations of the Fowler's Committee.

The Gold Reserve was established in consequence of the following general recommendations made by the Fowler's Committee, 1898-9.

We recommend that any profit on the coinage of rupees should not be credited to the revenue, or held as a portion of the ordinary balance of the Government of India, but should be kept in Gold as a special reserve, entirely apart from the Paper Currency Reserve and the ordinary Treasury Balances. . . . .

We regard it as the principal use of a Gold Reserve that it should be freely available for foreign remittances whenever the exchange falls below specie point; and the Governemnt of India should make its Gold available for this purpose when necessary, under such conditions as the circumstances of the time may render desirable. For example, the Government of India might, if the exchange showed a tendency to fall below specie point, remit to England a portion of the gold which it may hold, a corresponding reduction being made in the drawings of the Secretary of State.

There is not the slightest indication in the above recommendations to the effect that the profits on the coinage should be carried away from India and held permanently in England. On the other hand, it is clearly

evident from the language used that the profits ought to remain in India and be made freely available for foreign remittances in satisfaction of Secretary of State's demands for meeting the Home Charges, "whenever the exchange falls below specie point". It is also clearly stated that if such a contingency arose, and any portion of the Gold Reserve was actually withdrawn from India, the Secretary of State for India ought to make "a corresponding reduction" in his drawings. The Committee evidently meant that the "Gold Reserve" should exist in reality what its name implied, *i.e.*, a reserve of actual Gold, held in India, for the purpose of supporting exchange by making remittances to England whenever the necessity to do so actually arose and to recoup the deficit by withdrawing an equal amount from the general cash balances of the country and keep the Gold Reserve intact.

If the Fowler's Committee had really intended that this Reserve should be kept otherwise than in actual Gold, and be maintained in England as a safeguard in that country against risks of reduction in the standard exchange value of the sovereign, it is inconceivable why they should not have explicitly said so. The term given by the Committee to this accumulation of money (*viz.*, Gold Reserve) clearly expressed the function and limits thereof. When, sometime afterwards, the Government desired to divert the r[illegible] and location of this Reserve, and began to interpret [illegible]e recommendations of the Fowler's Committee in a ne[illegible]nd altogether different light*, then it was that, in 19[illegible] its

* In an Explanatory Memorandum of the East India Accounts and Estimates [illegible]d in July, 1911, over the signature of the Right Honourable Mr. Montagu, M.P., Under S[illegible]ary of State for India, and published as a Parliamentary paper, it was stated:

Gold Standard Reserve.

"In accordance with a recommen[illegible]tion made by the Indian Currency C[illegible]ittee of 1898-9, "it was decided that, with effect from April, 1, 1900:—

"1. The net profit on the coinage of new rupees should not be treated [illegible]venue, but should "be paid to a special reserve.

"2. The reserve should be held mainly in sterling securities, the int[illegible]eing added to the "reserve as it accrued".

The actual facts of the case are that the Indian Currency Committee did [illegible]ake any recommendation of the nature described in the second paragraph and the declaratio[illegible] this statement over the signature of no less a person than the Under-Secretary of State for Indi[illegible]ates a misunderstanding and leads the people to believe that in utilising the India's Gold Res[illegible] in the manner that the India Office has done, the Government have been acting in accordan[illegible]ith the recommendations of the Fowler's Committee, whereas in reality the action of the India O[illegible]e is in direct contravention thereof.

name was altered into the "Gold Standard Reserve" and it was decided that the bulk of this Reserve should be held in England and invested in sterling securities, and that a part only be held in India in silver coins to ensure and facilitate the encashment of the Council Drafts and Telegraphic Transfers from England.

Why the Reserve should be kept in England ?

The bureaucracy in India have from time to time given expression to several reasons as to why the Gold Reserve of India should be held in England. The main of these arguments are :

(1) Gold is located in England to simplify the duty of the Government of India in maintaining the gold value of the Rupee, as, when required to support the Exchange, it would be immediately available.

(2) Holding liquid gold in India would entail loss of interest which the Government at present earn by investment in gold securities.

With regard to the first of these arguments, no strain can be put on the exchange value of the rupee so long as India is able to pay for her purchases by her exports.

It appears from statements recently published by the India Office for submission to the Royal Commission on ʼudian Finance and Currency (1913) that the Foreign merndise Trade of India on Private Account for the period frc 1883 to 1912 stood as under :*

ar. (-ril-March)	*Exports.* £.M.	*Imports.* £.M.	*Net Exports.* £.M.
18ε84	58.747	35.136	23.611
1884-	55.467	35.433	20.034
1885–8	55.885	34.541	21.344
1886–87	58.952	39.108	19.844
1887-88	60.314	41.590	18.724

* The above statemen in millions of Pounds sterling ; fractions of a million over one thousand are shown in decimals.
The rupees are convert nto sterling at the rate of Fifteen Rupees equivalent to one Pound Sterling.

Year. (*April-March*)	*Exports.* £.M.	*Imports.* £.M.	*Net Exports.* £.M.
1888–89	64.652	44.380	20.272
1889–90	68.931	44.373	24.558
1890–91	66.757	46.023	20.734
1891–92	72.024	44.392	27.632
(*Nov-Oct.*)			
1892–93	71.580	45.010	26.570
1893–94	73.610	49.440	24.170
1894–95	72.130	45.940	26.190
1895–96	74.100	49.390	24.710
1896–97*	64.580	43.790	20.790
1897–98*	73.930	75.740	28.190
1898–99	73.670	48.400	25.270
1899–1900*	69.560	46.920	22.640
1900–01*	78.940	55.130	23.810
1901–02*	83.700	52.730	30.970
1902–03	94.510	54.050	40.460
1903–04	101.010	61.360	42.650
1904–05	106.470	66.070	40.400
1905–06	111.230	72.190	39.040
1906–07	129.270	79.050	50.220
1907–08*	99.530	87.420	12.110
1908–09*	111.240	75.840	35.400
1909–10	138.340	82.330	56.010
1910–11	150.560	89.850	60.710
1911–12	160.810	100.340	60.470

It will be seen that throughout all this long period there has not been a single year—inspite of the fact that parts of India were afflicted with acute famines in several different years—when India has not been able to pay for her foreign purchases by her exports. On the contrary, there has always been a substantial balance of trade in her favour. There is thus, for all practical purposes, an exceedingly remote risk of the disturbance in exchange value of the rupee on this account.

But India has to remit nearly £20,000,000 (less amounts borrowed in the United Kingdom for capital expenditure

* In the years marked with an asterisk (1896-97; 1897-98; 1899-1900; 1900-1901; 1901-02; 1907-08; 1908-09) parts of India were visited by acute famines and the expenditure on Famine Relief exceeded £500,000.

in India) every year to England for what are described as the Home Charges and her Exports must, therefore, exceed her Imports by 15 to 20 million pounds in order to enable her to liquidate her foreign obligations in full. Looking into the figures from this standpoint, we find that there has been but one single official year (1907-08) during which, owing to failure of monsoons and a widespread famine in India, the Government of India were obliged to draw on the reserves and cash balances already held by the Secretary of State in England " to the extent of "£8,050,000 to meet bills sold in India towards enabling "the unfavourable trade balance to be liquidated, and "£933,749 towards meeting the Secretary of State's re-"quirements, or £8,991,749 in all."—*Vide* evidence of Mr. Lionel Abrahams, C.B., before the Royal Commission, 1913.

An unfavourable balance of trade is, so far as India is concerned, a matter of exceedingly remote and rare occurrence; and to keep 33 crores of Gold Standard plus 13 crores of Paper Currency money of India for ever in England to meet a contingency which occurs, say, at most once in half a century, is a circumstance which—to put it in the words of the Hon'ble Mr. Webb—"has not "only deprived the public of confidence in the adminis-"tration of this Reserve, but it has, in my opinion, exposed "India to grave danger".

The wishes and feelings of the Indian people in this matter were correctly voiced by Sir Vithaldass Thackersey in his speech, on the administration of the Gold Standard Reserve, delivered in the Imperial Legislative Council on the 22nd March, 1912. Sir Vithaldass said :—

The location of Gold in India will not at all make the duty of the Government of India any more difficult in maintaining the gold value of the rupee. The call on this reserve is made only when it is required for export, and it will be as easy for the Government of India to deliver Gold in India to those who want it in exchange for rupees as it is easy for the Secretary of State to deliver Gold in London. If Gold is required by the Secretary of State when he cannot sell Council Bills it can be exported almost immediately.

Pursuing this topic in his evidence before the Royal Commission on Indian Finance and Currency (1913), the Honourable Mr. Montagu De P. Webb, stated:

> In connection with the general policy of holding the bulk of the Gold Standard Reserve in London, I submit the Government have gone entirely beyond their province in undertaking to provide not only Gold for export, but Gold ready delivered at a financial centre on the other side of the globe. The business of Government, so far as the maintenance of the sterling value of the rupee is concerned, is to provide Gold in India for export, if required, and not to endeavour to anticipate the requirements of the public by laying down £20,000,000 of India's money in London (or elsewhere) in advance. No doubt, London is in all probability the centre where the Gold, in an economic, financial or political crisis involving a change in the balance of trade against India, would be required. But Government's duty ends when it provides that Gold in India. To deposit the bulk of the Gold in a centre where the banking community are already, on their own initiative, considering how they can strengthen their own admittedly slender and inadequate Gold Reserves, is to expose India to risks and dangers from which she has every right to expect complete protection.

Referring to the question of the location of India's Gold Reserves, Sir Samuel Montagu, M.P., stated before the Indian Currency Committee of 1898-99.

> With regard to keeping a Gold Reserve here (in England), I see no particular advantage in it. A Gold Reserve at the Bank of England would, I think, be a financial waste. It might be very good for England to keep a Gold Reserve, but for India to keep a gold reserve that might very rarely be trenched upon would be a waste . . . . the great dependence ought to be on gold deposited in India itself.
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> * * * * * * * *
>
> If you have an accumulation of Gold, every million of Gold that you deposit in the Treasury in India would produce a moral effect which would be very great. In fact, I think, you would very soon be able to reduce your three-and-a half per cent rupee loans to three per cent. and so save the interest.

With regard to the second argument advanced in favour of the location of the Gold Reserve in London, *viz.* that the Government are thereby enabled to invest it in interest-bearing securities or on short-term deposits with individuals or banks, several public bodies in India have protested against this policy and regard it as full of grave risks. The Bombay Chamber of Commerce wrote to the Government of India, in 1907, representing that the Gold Standard Reserve is being maintained for the sake

of serious emergencies and that should such emergencies arise it might very easily happen that it will be extremely difficult to realise the securities rapidly. Indeed, the state of the money market brought about by the very emergency would, probably, be considerably aggravated if it entailed the realising of a large quantity of British securities, whereas if the Reserve was a metallic one the position could be at once relieved.

In order to realise the full significance and force of these observations, let us think for a moment about the nature of the emergencies against which such Reserves are held and the occurrence whereof may render it necessary for the Government to speedily realise the money now invested in securities. It is reasonable to believe that so long as prosperity and peace reign supreme and things glide on smoothly such sort of investments may, perhaps, be harmless. I have already explained that the chances of the occurrence of a famine of such magnitude as would turn the balance of trade against India, are remote; and should such a severe famine do happen and—what is still more unlikely—continue for more than a year, it is an axiomatic truth that it will be accompanied by a diminution in the people's powers of purchasing foreign commodities and the imports would automatically dwindle down.

When we study the affairs of other countries in the world, it is found that the reserves of Gold are held by them primarily for use in the event of political complications. Should, therefore, such complications ever arise and England may happen to be involved in a war with another big Power, the first effect that the war would have would be to cause the disorganisation of her financial and economic equilibrium. In such circumstances the sale of India's several millions sterling worth British and Colonial securities would be considerably difficult,—at any rate the situation would be infinitely aggravated if it were accompanied by the sale of such a large quantity of securities,—

apart from the heavy losses that are likely to be involved in the sale of paper money in times of panic or political unrest.

The Government of India, too, take somewhat the same view of the situation. In a letter, (No. 89), dated 1st April, 1909, addressed to the Secretary of State for India, the Governor-General-in-Council, after referring to the singular unanimity of the entire informed public opinion in India on this subject, said :

> We are frequently asked why we strain after interest on the Reserve, which is the basis of our currency system, and, consequently, one of the chief pillars of the credit of India ; and it is pointed out that other countries are careful to retain ultimate foundation of their credit in bullion.*
>
> Moreover, we conceive that the position of the Government of India in the markets of the world would be much stronger as the possessor of a large store of liquid Gold than as the possessor of a corresponding capital in consols or similar securities. In the former case, the Indian Government might in an emergency be powerful to help the market ; in the latter there would always be the potential danger of their wishing to realise at an inconvenient season. We would, therefore, urge on Your Lordship the propriety of building up a substantial share of the reserve in liquid Gold.

One more argument is advanced in favour of keeping India's Gold Reserves in London. It is this :

> India is normally in the position of owing London money ; this debt is discharged partly by the consignment of goods, partly by the renewal at frequent intervals of short loans or credits made by the London Market to the Indian Market on bills of exchange or through the Exchange Banks, and partly by new permanent loans. If there is great stringency in the London Market and London is in urgent need of funds, the use of the last two methods can be so much restricted that India can be practically forced to pay what is owing in Gold. It is, in fact, precisely because she is open to this pressure that it is necessary for a considerable Gold Reserve to be kept.†

* The reserves of Gold held in actual metal (not in securities) by the Treasuries and National Banks of some of the chief countries of the world on 31st December, 1910, were :

	£.
The United States of America	..263,241,000
France	..131,177,000
Russia	..130,476,000
Austria	.. 55,023,000
Italy	.. 48,363,000
Argentina	.. 37,033,000
Germany	.. 33,052,000
Australasia	.. 31,356,000
England	.. 31,356,000

—*Times of India*, Bombay, 25-5-1911.

† *Indian Currency and Finance*, by Professor J. M. Keynes, 1913, pp. 176-77.

It would thus appear that India's gold reserves are maintained in London so that they may be readily pounced upon by the London Market at any time when there is any stringency of money in England. It is precisely this consideration which has given rise to a feeling of jealousy in India. It is difficult to combat the impression that India's Gold is kept in England as a sort of pledge for the redemption of English capital lent to India. A process of reasoning based on such premises is vicious; it also gives rise to much heart-burning and prejudice against the policy governing the administration of these reserves. The argument, as expressed by Professor Keynes, that the Gold Reserves are accumulated by India to relieve strigency in the London market and are kept in "Great Britain, who "might use or regard India's 'ear-marked' Gold as her own "war-chest" has made "Indian opinion view with suspicion "the holding in London of the greater part of India's Gold Reserve". England is a prime financier not only of India but also of many other countries in the world, entirely outside British control or influence and the people naturally think that when no such security is even dreamed of in the case of any of those countries, it is particularly humiliating for India to be required to pledge her debts by the deposit of her own Gold; it might be quite as well to pay this Gold in satisfaction of debts and reduce the foreign debts by the amount of these reserves, rather than to allow the latter to be permanently diverted away from the country.

As regards the argument that the Indian market is financed by London through the Exchange Banks, I notice that, on the contrary, a practice has recently been pursued, by some of the Exchange Banks to lock-up the bulk of Indian deposits in Indo-European trade or, in other words, in financing the London market; and of carrying away the Indian balances to England or other foreign countries for investment there. It appears from

the statistics published by the Government of India that while the volume of Indian deposits in Exchange Banks has rapidly increased, the cash balances held in India are very low.*

Exchange Banks.

Year.	*Deposits in India.*	*Cash Balances in India.*
	Rs.	Rs.
1890	7,50,00,000	3,45,00,000
1900	10,50,00,000	2,40,00,000
1905	17,10,00,000	3,75,00,000
1910	24,30,00,000	4,35,00,000

The depletion of cash balances held in India by the Exchange Banks has further increased public feeling against the transference of India's money to England.

The Magic Power of Gold.

The manner in which the holdings of India's moneys have been steadily increased in England and the notions that have been held as to what figures should be regarded as adequate for the purposes of safeguarding the supposed risks of fall in exchange, and consequently for the retention of India's Gold in England, and the changes that have been brought about in such ideas, from time to time, in response to the magic of the growing stocks of the yellow metal, form an interesting chapter in the history of Indian Currency institutions.

The first thoughts about the establishment of a Fund to serve as a reserve for keeping up the exchange value of the rupee steady at 1*s.* 4*d.*, appear to have emanated from the Indian Currency Committee of 1898-9. This Committee recommended in a general way the utilisation of the profits on coinage as the nucleus of this reserve fund. The

* Commenting on these figures, Professor Keynes remarks :

"In the event of an internal financial crisis in India the Exchange Banks are probably depend-"ing on the anticipation that they will be able to remit funds from London by telegraphic transfer. "In this case they rely on not being hard-pressed in London and in India at the same time. An "Indian reserve, such as they appear to keep, of from 18 to 20 per cent would be respectable, for "example, in England. But in such a country as India, where Banking is ill established and hoard-"ing more than a memory, the proportion held in reserve seems somewhat lower than perhaps "it ought to be. Possibly Exchange Banks have already been in smooth waters longer than is for "their good. There are famous dates in the history of Indian Banking which should serve as a *momento* "*mori.*"

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first attempts at giving these general recommendations a practical shape were made by Sir Edward Law, Finance Member of the Imperial Legislative Council, when in June, 1900, he proposed the formation of what he described as a "Gold Exchange Fund". The proportion of Gold in the Paper Currency Reserve was steadily increasing. At the time he wrote his minute on the subject, the composition of this Reserve stood as under:

(Balance of 22-6-1900.)

IN INDIA:	
Silver coin	Rs. 5,96,27,989
Gold	Rs. 12,57,86,505
Invested in Rupee securities ..	Rs. 10,00,00,000
IN ENGLAND:	
Gold	Rs. 75,00,000

Sir Edward Law thought that this quantity of Gold was more than it was expedient to hold in the Currency Reserve. The first part of his proposal was to gradually sell off the ten crores worth of the rupee securities held in the Currency Reserve, at the rate of one crore worth every year, and to invest the money in sterling securities. And secondly, to keep only £7,000,000 worth Gold in the Reserve in India and to buy Silver from all the Gold that had then accumulated,—or might thereafter accumulate,—in the Currency Reserve in excess of this amount (*viz.*, Rs. 10,50,00,000); and coin the same into rupees. There was, then, 9¾ millions sterling worth Gold in this reserve in India, and after deducting the seven millions therefrom, the balance of 1¾ millions worth silver at the then current rate would, when coined, have yielded £700,000 as profit.

The conclusions at which Sir Edward Law arrived were that a "Gold Exchange Fund" ought to be founded from the above £700,000, plus the amount of profits on the rupee otinage which then stood at about £1,000,000. He thought ryinghis £1,770,000 held in Gold and augmented, from year to foreign ith the profits on future coinage together with the

gradual conversion of 10 crores worth of Indian rupee securities into sterling Bonds and interest on the latter would altogether be quite sufficient to provide an ample guarantee for the maintenance of exchange value of the rupee if at any time the balance of trade got, temporarily, adverse to India.

When these proposals were submitted to the Secretary of State for India, Lord George Hamilton appropriately answered: "I feel that there are serious reasons "against the adoption of the measures proposed, and I am "unable to sanction them".

The prevalent idea in 1900 was that if a sum of £12 millions could be secured in London in Gold or invested in sterling securities, it would be regarded as ample security for the up-keep of the exchange in unfavourable times. When, however, this figure came in sight, the ideas as to the magnitude of the amount which would be adequate for the purposes in view began also to expand.

On 8th August, 1907, Sir James Meston (then Financial Secretary to the Government of India) replying, on behalf of the Government, to a reference made in the matter by the Secretary to the Bengal Chamber of Commerce, said:

Hitherto no specific limit has been fixed for the amounts of the sterling investments; but it has for some time past been recognised that the investments ought not to continue indefinitely, and that they should cease when the amount shall be considered, in combination with the effect of the other measures adopted for the support of exchange, to be sufficient to secure with all reasonable safety the object for which the fund is created.

I am directed to invite the attention of the Chamber to the references to the subject made in the Budget Debate by the Honourable Mr. Gokhale, the Hon'ble Mr. Finlay and the Hon'ble Mr. Baker. Mr. Baker in his speech said that "the "time is approaching when it will be necessary to consider whether any, and if so "what, limit should be put on the amount of the invested portion, and this question "we shall take up without delay. Until that has been done, it will be premature "and possibly embarrassing to make any public declaration of policy." Since this statement was made, the question has been under consideration by the Government of India and the Secretary of State; and it was referred by Mr. Morley for the

opinion of the Committee recently appointed to deal with Railway finance, of which Sir D. Barbour is a member.* The conclusions arrived at were, that ample provision for maintaining the value of the rupee already exists, that in view of the present trade conditions, of the amount of the sterling securities held in the Gold Standard Reserve, and of the amount of Gold in the Currency and in the Treasuries any danger of a fall in exchange is illusory. . . . .

In explanation of these conclusions I am to invite the attention of the Chamber to the fact that the investments of the Gold Standard Reserve are not the only provision which the Government of India have made for use in the event of it being necessary to check a tendency to a fall in exchange. The Government also hold in the Cu-rency Reserve and in the Treasuries a large stock of sovereigns. These amount now to over £10,000,000 and that stock of Gold is equally available for the purpose of preventing a fall in exchange, notwithstanding that it might be brought into operation in a different manner from the Gold Standard Reserve itself. The amount of the sterling investments of the Gold Standard Reserve is nearly £13,000,000. The Government have, therefor , available for the purpose of combating a fal' of exchange a sum of about £23,000,000. It has been held by good authorities that the sum of £20,000,000 is enough to give a reasonable guarantee of safety against the ri k of a fall in exchange. The provision already made exceeds this amount by about three millions. In view, however, of the fact that there is room for difference of opinion as to the exact amount of the limit, and it is better in so important a matter to err on the side of caution, the Government decided to continue the investments to the extent of half the future profits on coinage until the amount in the Gold Standard Reserve alone reaches £20,000,000. When that limit is reached the total provision against the risk under consideration will amount to about £30,000,000, if the stock of sovereigns remains at its present level.

The sterling reserves of the Government of India, when Sir James Meston's letter was written in August, 1907, stood approximately as under :—

Gold Standard Reserve.

	£
Sterling Securities at market value . ..	12,901 675
Gold in India	73,970
Paper Currency Reserve.	
Gold in India	3,663,000
Gold in London	7,025,000
Sterling securities	1,333,333
Total,	£ 24,996,978
General Cash Balances held in London on that date amounted to about	5,150,000
Grand Total	£ 30,146,978

* The Committee on the Indian Railway Finance, etc., consisted of Sir James L. Mackay Chairman), Sir W.R. Lawrence, Sir F. O. Schuster, Sir D. M. Barbour and Mr. Lionel Abrahams. Their recommendations were :"Having regard to the satisfactory position which the Gold Reserves "have now attained, ... the Committee are of opinion that it "could not be regarded as imprudent to invest £1,000,000 of the profit on coinage for the present "financial year in Indian Railways and they therefore recommend this course to the Secretary of "State".

The foregoing correspondence shows that the view taken by the Government of India, in 1907, was that their position as it then stood was so strong that "any danger "to a fall in exchange is illusory". But, as the magnitude of the reserves grew, that opinion began also to assume a different shape. The maximum of 12 millions desired in 1900 had grown into 25 millions in 1907 and still what the *Times of India* regards as "the greed" for the accumulation of more Indian funds in England did not abate.

The position of the Government on the 31st March, 1913, in respect of its sterling reserves stood as follows :—

Gold Standard Reserve.

(Held in England)

	£
Securities at market value	15,945,669
Invested in London subject to recall short notice	1,005,664
Gold deposited at the Bank of England ..	1,620,000

Paper Currency Reserve.

Gold in India	19,583,386
Gold in England	6,100,000
Sterling Securities	2,666,666
Total :	
In England	27,337,999
In India	19,583,386
Total	£ 46,291,385

This amount is exclusive of nearly 10 million sterling of India's general cash balances held in London :

In cash at the Bank of England	1,095,852
Lent out to private individuals or firms on security and deposited with other Banks	8,650,000
Grand Total	£ 56,667,237

(at 1*s*. 4*d*. Rs. 85,00,08,555).

The steady removal of India's funds to England, under the cover of the plea that they are required for the maintenance of exchange in unfavourable times, has confirmed an impression in the hearts of the people of India that the arguments advanced—in support thereof and the changes in the policy announced from time to time—are mere devices for preventing Gold from coming into India as far it can possibly be helped, and that the practice enforced by the Secretary of State for India, since 1905, to purchase *en route*, by means of Telegraphic Transfers, the Gold sovereigns shipped from Australia or Egypt to India in *bonafide* payment of the latter's exports is a further extension of this same movement.* The consumption of Silver currency in India has been artificially stimulated owing to the transference of over 50 millions sterling of India's available money to England and the consequent grant of 80 crores worth of Council Bills on the Indian Treasuries. The growth of such impressions does not add either to the prestige or to the popularity of the Government and it is high time that some change was decided upon in the policy which has been guiding the course of events into channels that have been productive of strong criticism and unrest in India.

When Lord Hardinge visited Karachi in 1911, the Karachi Chamber of Commerce, which is the premier exponent of commercial opinion in Sindh, presented an address of welcome to His Excellency, in the course of which the Chamber expressed their views in this matter as follows:–

> On the subject of India's Gold Standard Reserve, the Chamber are strongly of opinion that the interests of this Dependency would best be served by the retention of a substantial portion of the Reserve, in Gold, in India. The Chamber think that this end could best be accomplished by defining the nature, objects, and management of the Gold Standard Reserve by Statute.

In reply, His Excellency thanked the Chamber for bringing the subject to his notice: he regarded it as a

* Extract from the Government of India letter No. 144 dated 26th April, 1906, to the Secretary of State for India:

"The expansion of your drawings and the recent decision to grant telegraphic transfers against "sovereigns in transit from Australia will check importation of Gold into India in the future".

complicated matter of great importance. He found that the subject had been under the most anxious consideration, more than once, between the Government of India and the Secretary of State, and promised to convey the opinion expressed by the Chamber to Lord Morley (then Secretary of State for India) as without the latter's concurrence it was obviously impossible to make any change in the existing arrangements. In forwarding the opinion of the Karachi Chamber of Commerce to the Secretary of State, on 6th July 1911, the Government of India could not restrain themselves from expressing that "our views are "substantially in agreement with those of the Chamber," but it was considered inexpedient to ask for any legislation in view of the decisions recently arrived at by the Secretary of State in the matter.

The decisions above referred to were these: The Government of India in their letter of the 1st April, 1909, an excerpt from which expressive of their views in regard to this question has already been given, referred to the desire of Lord Curzon's Government that the Gold Standard Reserve "should be held in liquid gold in India" and, commenting upon the manner of its investment in sterling securities, expressed an apprehension that "the free employ-"ment of the Reserve might be seriously hampered by the "the form in which it is now held". The Secretary of State replied that he was "unable to attach importance to "the apprehension" entertained by the Government of India and decided:

In view of the pecuniary disadvantage of holding a part of the Gold Standard Reserve in Gold, I do not see my way to adopting this proposal. But I am willing to meet your wishes to the extent of leaving £1,000,000 of the Reserve uninvested. The part so treated will be either lent from time to time for short periods on approved security to approved institutions and firms or deposited at interest with Banks of high standing, the interest earned being credited to the Reserve. The remainder portion of the Reserve will be dealt with (as follows):

(1) To hold a considerable portion of the Reserve in the form of high class securities with a near date of redemption, because cash can

always be obtained at the shortest notice, by sale or loan, for such securities in the event of their realisation before maturity becoming necessary.

(2) To hold in addition such an amount of stocks yielding a higher rate of interest (*e.g.*, Consols) as I can count on being able to sell in time to meet all requirements that should be met from the Reserve.

The transactions necessary to give effect to the decision regarding the £1,000,000 that is not to be invested will be carried out gradually and you will be informed of them in due course.

It is obvious that after the announcement of such a decisive policy by His Majesty's Principal Secretary of State it would have required a bold heart, indeed, to propose any modifications. In spite of the above statement, securities of no less than £6,396,513 (face value) held in the Gold Standard Reserve on 31st March, 1913, were either perpetual or such as will not mature till after a long time.

Truly did Sir William Wedderburn once observe that there is a remarkable tendency in oriental institutions to grow top-heavy. The necessity of properly defining the functions, location and composition of India's Gold Reserve with due regard to the limits placed thereon at the time of its creation, and freeing it from the distortion effected in its aim and object through the conversion of its denomination in 1906 is growing daily more pressing and imperative.

The views of the Secretary of State, above quoted, it need hardly be said, are open to grave criticism and form a most disputed argument in the whole controversy. Sir Ernest Cable put the objections to the holding of so large a portion of India's Gold Reserves invested in securities in a most clear language when he expressed himself in Calcutta, in March 1905, thus:

The point I wish to drive home is that at times of international complication and crisis the possession by India of a stock of Gold bullion would be a great bulwark of safety. It would obviate the possible necessity of our being forced to sell securities just at that particular time when those securities might be very greatly

depreciated in value. Gold, on the other hand, always appreciates in value at such times. We know that the Gold Reserve held by the Bank of England is generally recognised to be lower than it ought to be; and there is a feeling that the British Empire is attempting too much all over the world on an insufficient stock of gold. Moreover, Great Britain has now entered into an alliance with another Power, and thus runs a greater risk of becoming involved in international complications. There is consequently a greater chance of the occurrence of periods when the realisation of Consols at profitable rates will be difficult. . . . . .Russia's financial system would long since have tumbled down but for the unbounded faith of continental bankers and financiers in her enormous Gold Cash Reserve. The political and financial effect of that great aggregation of Gold has been, we are told, miraculous. Far be it from me to suggest that India should ever attempt to go the length to which Russia has gone in hoarding Gold. But the lesson of Russia teaches us that the advantages of a large bullion holding, legitimately accumulated, are incalculable.

Quite apart from all this, the constant issue of new capital every year and creations of fresh sources for the profitable employment for money are lessening the popularity and glamour of the fixed interest-bearing securities. The creations of new capital during the year 1913 are reckoned at no less than £229,232,408 or about £38,000,000 more than in 1912. Reviewing on this state of affairs, the London *Times* explained in a recent issue the reasons of the slump in the gilt-edged securities in the following manner:

The huge creation of new securities has had a decidedly adverse effect on the prices of many of the old stocks, and in all respects the year (1913) was a very unfortunate one for holders of public securities. . . . . . The drain of new capital creations diverted money which otherwise would, in all probability, have come into the stock Exchange for investment. Dealers in money cannot expect to 'have it both ways' any more than other sons of Adam. If money earns high rates, the profits of banks are high; but when money is dear, the prices of securities tend to fall, even if the volume of securities in existence remains unaltered which was very far from being the case in 1913.

Under such circumstances, it would not require a long stretch of imagination to conclude that the investment of a country's emergency Reserve in securities, however good and profitable they may be, should be entirely eschewed. It may mean this. That just when there is a financial panic and funds are most needed,

there may be no market for these investments or they may be saleable only at a great sacrifice. Such investments are, therefore, unsatisfactory.

Heart-burning Investments.

Quite apart from the impropriety of the procedure of locking-up a country's emergency Gold Reserve in foreign securities, an analysis of the securities themselves reveals a singular lack of statesmanship and regard for the feelings and sentiments of the people of India.

By investing India's money in South African Government securities to the extent of nearly 1¾ crores of rupees the Government have indirectly helped in the expansion and improvement of a country that has insulted India's sons and daughters in the most barbarous and horrible way imaginable. The indignities, humiliations and tyranny to which Indians are subjected in South Africa are known all over the World. To put the situation in South Africa in the impassioned and eloquent words of Lady Petit:

> Thousands of Indians are on strike, hundreds of them have gone to jail, and mines (compounds) have been converted into jails, managers of the mines have been invested with the powers of jailors and the passive resisters are being terrorised in various ways. . . . . Cases of flogging have been reported and some Indians were killed and wounded when they came into conflict with the police. Sjamboks were being used freely to drive the Indian strikers to their locations. It is admitted by one and all that the situation is very grave and demands a speedy solution. The very fact that a number of Indian women in South Africa have joined the passive resistance movement and are braving the horrors of prison life shows how intolerable the position of Indians in South Africa must have become.* Indians resorted to the extreme measure of passive resistance when every remedy had failed. They were not clamouring for political rights and other privileges that are enjoyed by the white colonists, although they could have rightly done so, being subjects of the same Empire. . . . .

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* The Durban correspondent of the "Daily Mail", in a telegram recently sent to that paper, stated:

"The colliery employers are keeping their Indian workers in barbed-wire enclosures, the wire "being connected with the electrical generating stations and thus carrying a current of electricity. "Any Indian who attempts to escape and so comes into contact with the wire will receive a shock "of 220 volts."

A further message seemed to imply that the Indian workmen were starved in order to coerce them into submission:

"The sugar planters have resumed the giving of rations to the Indian labourers who are on "strike, and have stopped threatening to evict them. This is due to the fact that the Indians had "declared that they would set on fire the sugar cane crops, which are mature and readily inflammable."

They merely asked for the ordinary decencies of life, in short they claimed to be treated as human beings in a civilised manner. They were prepared to make every compromise short of being treated as serfs, but, instead of their grievances being redressed to any extent, even their existing rights were taken away from them one after another, the solemn promises given to them were flagrantly violated and the Union Government adopted such a policy towards them as was calculated to drive all the Indians from the land which owed much of its prosperity to their labour.

The poll-tax of £3 was imposed upon the Indians not with the object of raising any considerable revenue but to prevent Indians from being free men in the Colonies. The European planters and mine owners in South Africa have openly made statements that they wanted Indians only as indentured labourers and not as freemen. Even the elementary laws of chivalry have not been respected by the white colonists in their policy towards the Indian Community. The poll-tax of £ 3 has driven some helpless women to a life of shame. And the recent decision given by the Supreme Court of Natal has deprived the Indian women whose marriages have been performed according to non-Christian rights, of their rights as wives, and their progeny have been consequently exposed to the infamy of illegitimacy. The womanhood of India has thus been insulted and the Indian women who are taking part in the passive resistance movement and have gone to jail, have done so and are doing so simply to save their honour.*

The situation in South Africa has been so grave that even His Excellency Lord Hardinge, the noble-hearted Viceroy of India, in his speech delivered at Madras in November, 1913, referring to the troubles of the Indians in that country, said: "In all this they have "the sympathy of India, deep and burning, and not "only of India but of all those who like myself "without being Indians have feelings of sympathy "for the people of this country". And that true humanitarian and friend of the Indians—the Revd. Mr. C. F. Andrews—at much personal sacrifice, himself proceeded to South Africa to try and mediate on the helpless people's behalf. To invest India's money to the extent of about 1¾ crores of rupees in South Africa, 1.15 crores in Australasia and nearly 25 lakhs in Canadian Bonds and thus financially help those colonies—when the feelings against them are running so high in India, is to add insult to injury and wound the self-respect of the people of this

* Extracts from a speech delivered by Lady Petit at a meeting of Indian Ladies held in the Town Hall, Bombay, on Saturday, 29th November, 1913. The full speech is reported by the *Bombay Chronicle* in its issue of 1st December, 1913.

country. It is, therefore, desirable that the securities connected with the Governments of the countries that have grown unpopular in India owing to their anti-Indian legislation and attitude be soon disposed of and India's money released therefrom.

A Practical Solution.

What puzzles the people of India most is that every country in the world, not excepting England, is anxious to keep its Reserves in actual Gold. Why should, then, a departure be made in the case of India and her Gold Reserve be not only invested in public securities,—and these, too, of foreign countries—but also in loans to private firms doing business, and having their assets, outside the limits of India.

Uncomfortable facts are revealed from the figures published by Mr. Walter Badcock, Accountant-General at the India Office. It appears that when in 1907-09, the balance of trade had, temporarily, turned against India and the Secretary of State had to realise about 13½ crores worth securities in order to meet the bills sold by the Government of India on London, the sale of the securities resulted in a loss of no less than Rs. 22,02,780 to the Indian exchequer. It must be remembered that the times during which the securities were sold were those of perfect peace and trade prosperity in England and when, even in such times, these securities could not be sold except at a loss of over 22 lakhs of rupees, the conclusion to which one is irresistibly drawn is that the capacity of the market in which India's Gold Reserves are wholly invested is very limited and it would be exceedingly difficult to realise their value at a really critical time without incurring heavy losses, particularly as all the investments are made in British securities and financial troubles in one part of the Empire would not generally be without their depressing influence in other parts thereof as well. As it is, the coun-

try has already suffered the following further losses (in addition to the above Rs. 22,02,780) in the investments hitherto made :

	Rs.
Loss on the South-African National War Stock and Bonds worth about 1 crore and 30 lakhs of rupees redeemed at par value on 5th April, 1910	49,755
Loss in Cape of Good Hope Bonds worth about 16 lakhs of rupees redeemed at par value on 1st July, 1911	43,710
Loss on New Zealand 3¾ % Debentures worth Rs. 6,75,000, redeemed at par value on 1st April, 1912	4,230
Total loss hitherto incurred Rs.	23,00,475*

In addition to the above losses, the India Office authorities found on comparing the rates prevalent in the London market in April 1912, that if they were to sell their paper holdings and the sales were effected at the normal market rates of the day, it would result in a loss of about Rs. 1,10,00,000. As a matter of fact, however, if the large quantities of paper held by the India Office were ever to be put on the market at one time or in quick succession they would be likely to glut the market to such an extent that even in times of peace and prosperity the prices for this class of security would go down appreciably; in times of financial tightness, when alone the necessity for their sale would probably arise, the depreciation caused in price would be terrible.

With all deference and regard to the wisdom of the powers that be, the public in India is not convinced,—in fact their representatives in the Imperial Council have expressed their disagreement in quite unmistakable language—that it isprudent to invest 28 crores of rupeesworth of India's money in British and Colonial sterling securities and to lend

* The above statement does not appear to be complete as it appears from the Government of India Notification No. 406—F, dated 28th March, 1913, that there was some loss incurred on the redemption of £81,000 worth 4 % Canada Bonds redeemed in 1912.

out about 12 to 15 crores to private firms in a single money market, and they strongly believe that in the interests of Indian finance it is high time when the bulk of the funds invested in these securities were disengaged and kept in actual gold in conformity with the recommendations of the Indian Currency Committee of 1898. A sum of 10 crores of rupees is the utmost, which the people think should, in all, be held in England in liquid gold or invested in sterling British and Colonial securities; and this amount ought to be quite sufficient to tide over any emergency that might arise. And they strongly feel that India's entire gold Reserves, in excess of the aforesaid 10 crores (which ought to be the maximum amount invested and held in England) should, under normal conditions, be kept in India. Should further remittances to England be necessary, they could easily be met by shipping Gold from India to England.

The assurance given by the India Office that the Secretary-of-State-in-Council deliberately accepts full responsibility for making the reserves available, when required, for the purposes for which they are created, does not take us far. If the acceptance of the responsibility implies that the Secretary of State will be able to convert the securities into actual gold in times of crisis by his fiat or weight of authority, it will hardly relieve people's anxiety. The finances of a huge money market like London are governed by a net work of multitudinous considerations and it is clearly beyond the power of even a high minister of State to regulate or control the flow of events therein in a time of financial panic or general depression. The enlightened public feeling in India on this subject was correctly voiced by Sir Vithaldass Thackersey in the Imperial Legislative Council of India on the 22nd March, 1912. He said:

My Lord, if our Gold Standard Reserve is kept in India in Gold, we may be able in times of emergency to be of service to the London money market, while

under the present policy in time of emergency we may increase their difficulties by our necessity to withdraw the Gold. A big money market like London will not be adversely affected by the gradual withdrawal of Gold in normal times, but in times of trouble it may feel the pinch. With our Gold in India, London will keep its ne cessary stock of Gold in the usual way, and in times of trouble we can help them with our Gold, which will be an extra reserve. So looking from the point of view of England itself, it is an advantage that our Gold should remain in India."

And Sir Guy Fleetwood Wilson felt the core of the Indian heart when he alluded to the feeling "that the "Gold Reserve is our own money, and that, as a matter "of national pride, it should be in our own country as a "visible possession".

CHAPTER V.

The Expansion of Paper Currency.

Some writers have compared the adoption of a Paper Currency to the discovery in the country of new mines, because you do really add to the effective wealth of the country, to whatever extent paper replaces the coin in circulation. Adam Smith, I think, it is who compares the economy thus effected to a discovery by which all your locomotion could be conducted without roads, and by which you were enabled, therefore, to add the existing roads to the portion of the land under reproductive cultivation.—*Mr. James Wilson.*

General Sketch.

The institution of paper money was first introduced into India in 1839, when the Presidency Banks were authorised to issue notes payable to bearer on demand. This form of currency was quite a novelty in those early days of the consolidation of western ideas of currency in India and the notes were, not unnaturally, looked down with suspicion by the natives of the country. The use of the notes did not extend to any large extent and their use was practically limited to the three Presidency towns of Calcutta, Bombay and Madras.

The idea of transferring the issue and management of paper currency under Government control was first conceived by Mr. James Wilson. Before coming out to India as the first Finance Member of the Government of India's Council in the autumn of 1859, Mr. Wilson had been Financial Secretary to the Treasury and had thus had numerous opportunities of gaining an insight into the working of the systems of paper currency in England and other countries of Europe. He had already discussed the matter with Sir Charles Wood, then Secretary of State for India, and, soon after his arrival in this country, he set himself to the task of introducing an effective paper currency in India. In the carrying out of their scheme

into practice, the Government of India were greatly helped by the Governor and the Company of the Bank of England, whose symathies Mr. Wilson had taken care to enlist in this cause.

The art of note manufacture has attained a most high degree of perfection and security in England and it is due to their excellence of management and to the use of machinery and scientific operations of a most refined and perfect character, that while the Government in England is often engaged in hunting down counterfeiters of their metal coins, the Bank of England is comparatively immune from the risks of the forgery of their notes. The laws of England have given to that corporation the sole right to the use of paper manufactured in a particular way, and to use printing of a particular kind. The paper used in the Bank of England notes is said to be manufactured by one firm only and this firm is bound by law to supply the paper (which is impressed with particular water marks) to the Bank of England alone and admit no stranger to enter the premises. Long years of experience have proved that the plainest and simplest form of notes is the one in which forgery is most easily detected, and that elaborate notes are easily imitated. An idea of the efficiency of their management may be gathered from the fact that if out of the millions of Bank of England notes in circulation one were to cut out the number and two capital letters that are inscribed in a corner of every note and present that small remnant of the note—the whole piece being thrown away—to the Bank of England, they would at once tell the place and date of its issue, value and the party to whom it was originally issued and would be quite content to pay its value,—of course, under proper safeguards to secure themselves against double liability in case the remainder note is also presented. With their wonted magnanimity, the Directors of the Bank of England consented to place the benefits of their experience at the disposal of the Government of

India and extended the use of all the advantages enjoyed by them under Acts of Parliament to the Indian Paper Currency.

Ushered under such auspicious promises of help and guidance, the Bill for the establishment of a Government Paper Currency in India was first introduced in the Council of the Governor-General in India on the 3rd March, 1860, by Mr. Wilson. Unfortunately he did not live to see the bill passed into law. By Act XIX of 1861, Paper Currency, under Government management, was lawfully set up in India. Under the provisions of this law the Paper Currency notes were made unlimited legal tender at all Government treasuries and in private transactions of any kind whatsoever within the circle to which they pertain; they were, on presentation, encashable in coin at the treasuries within the jurisdiction of the circle of issue. It was also provided that the Government of India should keep ready bullion and coin to the full value of the notes issued, with the exception of a certain small portion invested in Government of India rupee securities, as a guarantee for their convertibility. The limit of investment in securities was originally fixed at four crores of rupees, but as the circulation of the notes increased, this limit was also enlarged. In 1871, the maximum proportion of the Paper Currency Reserve which might be held "in securities of the Govern-"ment of India" was increased to six crores; in 1890 to eight crores; in 1896 to ten crores; in 1905 to twelve crores and, finally, in 1911, to fourteen crores. In 1905, an innovation was made in the description of the securities in which investments might be made by substituting "for securities of the Government of India," the words "securi-"ties of the United Kingdom of Great Britain and Ireland "or of the Government of India, or securities issued by the "Secretary of State for India in Council under the "authority of Act of Parliament and charged on the reve-"nues of India." The value of such securities as were

not the securities of the Government of India was restricted, in 1905, to two crores, but in 1911, it was raised to four crores of rupees.

The invested portion of the Paper Currency Reserve, therefore, now stands as under :—

		Rs.
In India	.. .. ..	9,99,99,946
In England	.. .. ..	4,00,00,000
	Total Rs.	13,99,99,946

In his criticism of the original scheme for the Indian Paper Currency, as promulgated by Mr. Wilson, Sir Charles Wood, then Secretary of State for India, had laid down—*vide* his Despatch dated 26th March, 1860—rigid instructions as to the proper principles that should govern the policy of the Government of India in the matter of note-issue and the fixation of the proportion of the reserve to be invested, from time to time, in securities. These principles were : (1) that the function of note-issue should be entirely dissociated from that of banking ; and (2) that "the amount of notes issued on Government securities "should be maintained at a fixed sum, within the limit of "the smallest amount which experience has proved to be "necessary for the monetary transactions of the country, "and that any further amount of notes should be issued "on coin or bullion." It was plainly mentioned that if the Government of India were to depart from these principles in the regulation of their paper circulation, they would be treading on "unsound" lines.

Denominations of Notes.

Mr. Wilson's scheme provided for the issue of currency notes of the denominations of five, ten, twenty, fifty, one hundred, five hundred and one thousand rupees. The idea of issuing five-rupee notes was abandoned during the passage of the Bill in the Imperial Council. Ten-thousand rupee notes were, later on, added. Encouraged

by the popularity of notes of the lowest denomination (*viz.* Rs. 10), the Government of India passed an Act (No. III) in 1871, authorising the issue of five-rupee notes.

By the Act of 1861 every note was a legal tender in its own circle. The Government, however, relaxed the rigidity of these restrictions in so far as to permit the payment of dues to the State being made in currency notes of any circle; and the railway administrations could, if they accepted notes of any circle in payment of fares and freight, recover the value of them from Government. Beyond this the law did not impose any obligation on any body—official or private—to pay notes outside the circle of issue, though as a matter of grace, the Paper Currency offices and the Government district treasuries (of which there were 271 in British India on 31st March, 1913,) often cashed foreign circle notes to a small extent for the convenience of the *bonafide* travelling public. The reason for such restritions is easily explained. India is a very extensive country and the conditions of trade lead coins to ebb and flow freely from one part of the country to another. The Government had, in the beginning, no means of knowing how the people would take to paper money; whether, it would enter into the very fabric of the currency of the country and remain permanently in circulation. It was evident that so long as the people had the least doubt as to their convertibility into coin, notes would have short lives in actual circulation and would often be presented at the Government treasuries for payment and if the Government had facilitated the use of currency notes for purposes of remittance—or, in other words, made them payable at all places in India—they would have had to undergo the expense and responsibility of keeping a close watch on the movements of trade from one place to another, throughout the different seasons of the year, and follow those movements by constant railing down of silver coins to the various centres. This was obviously very difficult.

The idea, therefore, was to at first popularise the use of notes as a medium of currency by habituating the people

to use them in every day local transactions; and as people began to repose greater confidence in this form of currency and handled it freely without suspicion, the Government extended their use for purposes of remittance also. A trial was made by declaring, in 1905, five-rupee notes, issued from any town not in Burma, legal tender in any place in British India except Burma and payable at any office of issue not in Burma. The restriction as to Burma was removed in 1909. This experiment proved eminently successful and increased the average circulation of five-rupee notes in one decade from 8,72,414 (in 1902-03) to 25,99,877 (in 1911-12). Encouraged by this success, the Government removed the restriction in respect of ten and fifty rupee notes in 1910; and the hundred-rupee notes were made universal from the 1st April, 1911. The returns for the circulation of twenty-rupee notes showed that it was not so popular as was anticipated and the issue of notes of this denomination was discontinued from 18th February 1910. The old notes are yet legal tender and, in 1911-12, about 65,000 of them were still in circulation.

There has been an enormous increase in the circulation of currency notes in recent years as the following table would show. The universalisation of various denominations of notes has, no doubt, largely contributed to this result.

Table showing the numbers of the several denominations of currency notes in circulation, as also their total value, in each of the following years :—

On 31st March in	5	10	20	50	100	500	1,000	10,000	Total Notes Circulation.
1873 ..	3,10,001	9,70,517	4,41,871	1,57,965	2,14,110	27,957	57 635	576	11,13,50 610
1883 ..	4,75,457	19,55,081	2,64,819	1,73,132	3,01,585	28 513	38,158	2,661	14,50 64,080
1893 ..	4,95,451	39,17,356	3,30,083	2,32,482	5,68,068	50,648	67,981	5,403	26,40,18,200
1903 ..	8,72,414	59,60,226	4,62 952	2,63,866	8 98,724	56,348	65,653	8 712	35,72,36,070
1912 ..	25,99,877	1,50,90,740	65,633	3,79,255	16,52,409	56,102	92 971	14,320	61,36,25,095

Note :—These figures are taken from pages 240 and 248-49 of Vol 1, Appendices to the *Interim* Report of the Royal Commission on Finance and Currency, 1913. There is some difference in the value of total note circulation when compared with the values of the various denominations. No explanation is given in the book for this discrepancy.

Paper Currency Reserve.

(a) Silver Branch.

The law of 1861 provided for the maintenance of Paper Currency reserve in "coin or bullion." The coin in which the main bulk of the reserve should be kept is, of course, the rupee. Now, in 1861, the rupee was a freely minted coin and, as I have remarked in a previous chapter, it represented as a piece of currency no more than its value in bullion. By the Coinage Act of 1893, the rupee became an artificially valued token coin and the spirit of the law demanded that the value of silver coin held in the Paper Currency reserve should be reckoned, in terms of currency, at its bullion value. But though, through unforeseen chances, the words have changed their meanings, the creed of 1861 is still repeated. It has permitted the old system to acquire through inadvertence a certain degree of usefulness inasmuch as by keeping silver reserves— or a portion thereof—in the form of token silver money, the Government is enabled to remit nearly 42 % of the nominal value, being profits on the coinage, to England for investment or retention there in the form of Gold Standard Reserve.

On 31st March, 1913, the Paper Currency Reserve stood as under :—

	Rs.
Total circulation ..	68,97,78,240
Reserve held in India :	
Silver (at coined value) ..	16,45,27,496
Gold	29,37,50,798
Securities.	9,99,99,946
Reserve held in England :	
Gold	9,15,00,000
Securities.	4,00,00,000
Total ..	68,97,78,240

The rate of Silver at present is Rs. 69 per 100 tolas. The rupee is eleven-twelfth fine, which works out to about Rs. 63-4-0 per 100 tolas or 100 rupees. It would appear

that at this rate the bullion value of the sum of Rs. 16,45,27,496 held in the Paper Currency Reserve is less than 10½ crores of rupees.

(b) Gold Branch.

Gold does not appear to figure in the Paper Currency Reserve till 1893. There were, no doubt, some 20 lakhs of rupees worth sovereigns held in 1865, but they soon disappeared. It was in consequence of the closure of the Indian Mints to free coinage that the Government of India issued, on the 26th June, 1893, a notification providing for the issue of currency notes against gold coin and gold bullion at the rate of one rupee to 7.53344 grains troy of fine gold; sovereigns and half-sovereigns of current weight were to be taken as the equivalent of fifteen rupees and seven rupees and eight annas respectively. In 1898, an Act was passed enabling notes to be issued in India against deposit of gold with the Secretary of State for India. The Act provided that gold set apart under it by the Secretary of State should be held by him "until he shall transmit the same, or what he "shall determine to be equivalent to the same, in gold coin "or gold bullion to India, or until the Government of "India shall appropriate and set apart in India as a part "of the Currency Reserve . . . . . . "an amount of coin of the Government of India equal in "value to such notes." These are, thus, the first beginnings of that anomaly known as the Gold chest of the Paper Currency Reserve. *

It was clearly given out, and understood, at the time of passing the above Act (II of 1898), that it was a temporary measure to meet the exceptional conditions that

* The purpose for which a currency chest was opened in London was described in Mr. Bro- "drick's despatch (No. 110 Financial) dated 7th April, 1905. The Gold was to be held at the Bank "of England so as to be immediately available for the purchase of Silver whenever the need for "additional coinage may arise. He added that another advantage of storing the Gold in England "would be the possibility of using it to replenish the balance of the Home treasury against an equiva- "lent transfer in India of rupees from our Treasury to the Currency Reserve. The latter function "of the ear-marked gold was clearly meant to be subsidiary to its use, when required, for the prompt "purchase of Silver".—Extract from letter No. 68 dated 21st February, 1907 from the Government of India to the Secretary of State.

Note:—On 31st March, 1913, the amount of gold held in London in this currency chest was equivalent to Rs. 9,15,00,000.

had then arisen. The balances of the Government of India were at a low level. There was considerable difficulty in meeting from them the Secretary of State's drafts. To meet this crisis—it was arranged that the proceeds of the Secretary of State's sales of Council Bills would be set aside *pro tempore* to the credit of the Paper Currency Reserve at the Bank of England and the Government of India would issue notes against the gold so set aside, in England and with them meet *pro tanto* the Secretary of State's drafts, without reducing their Treasury balances. The lust for India's Gold in London is proverbial. It soon enabled the London money market to discover in this procedure another weapon for depriving India of her rightful share in the world's enormous production of Gold. The "emergency measure' was, therefore, soon extended for 2½ years, (by Act VIII of 1898) and when, in 1900, it was found that nearly 2 crores of rupees worth India's Gold had in this way accumulated in London, pressure was brought to extend this measure for a further period of two years, and in order to lend this second extension a colour of justification it was enacted that the Secretary of State be empowered to expend the Gold held by him on the purchase of silver bullion and to transmit such bullion to India for currency purposes; and, further, that the silver bullion so purchased be held as security for currency notes until rupees were coined from it. The arguments used seem to imply that the Indian Currency expands and contracts by fits and starts of such a gigantic proportion as to necessitate the holding of nearly 9 crores of rupees worth India's Gold permanently in England to enable India Office to at any time at once buy large quantities of Silver and ship them to India to meet sudden and unexpected demands. The basic principles of the currency policy of modern advanced states are that the metal required for token coinage ought to be replenished by slow but steady purchases (so as not to inflate unduly the token currency, or force up the silver market against Government) and the capital required for coinage pur-

poses ought to be met out of the profits of the coinage itself,—which profits ought to be held mainly in liquid condition.*

It would, perhaps, not be uninteresting to recount briefly the reasons advanced on different occasions by the bureaucracy in support of their action, the underlying purpose of which, it is generally believed, has been to transfer India's Gold to England. In 1898, it was said that money had become very dear in India and exchange had risen to gold point. For some time the selling rate in London of Telegraphic Transfers on India had touched 1s. 4 5/32*d.* There was a strong demand in England for the Secretary of State's drafts. It was, therefore, with the object of relieving the stringency in the money market that the act, in question, was passed as a temporary measure and funds withdrawn from India.

When, in 1900, the utility of the Act of 1898 was recognised and its extension for a further period of 2 years was recommended to the Imperial Council, Sir Edward Law urged these fresh grounds in support of his motion:

"The silver from which the rupees are to be coined naturally has to be bought and under the provisions of the present Act, the Secretary of State has been obliged to use his Treasury balances—the resources outside the Paper Currency Reserve—for the purchase of that silver, and this has caused considerable difficulty. Being unable to touch the funds in the Paper Currency Reserve we were obliged to find fresh money for our purchases and the result was that we were locking up money in two different places at one and the same time for one and the same purpose. We were holding gold which, owing to the requirements of the Currency Reserve, we could not touch, and we were holding Silver to be coined into rupees to be put, when coined, into the Currency Reserve in place of that Gold. The proposals now made will enable us to consider Silver bought for coinage as forming part of the Currency Reserve and will enable the Secretary of State

* The Government of India have themselves supported this view in their letter No. 144 dated 26th April, 1906, to the Secretary of State:

The natural method of maintaining a reserve of bullion for coinage purposes would be to purchase the amount required from revenue and to replenish it from the same source as required from time to time. This would, however, involve either the reduction of our balances by about 2¼ million sterling, which is quite impossible, or the raising of an equivalent amount by borrowing, with its attendant charge of interest. We are of opinion that this charge may fairly be thrown upon the Gold Reserve Fund, and that there is nothing inconsistent with the purpose of that Fund in the measure which we propose, ... The effect no doubt is that the amount so held will not be earning interest in the meantime, but having regard to the rapid progress of our accumulation of Gold in the Gold Reserve Fund in the past five years, we consider that the question of its further accretion by interest is now of less importance than the formation and maintenance of a sufficient reserve of silver bullion. Our currency system is unavoidably artificial, and the profits arising therefrom should be primarily utilised, not in breeding interest, but in protecting it against the risks to which an artificial system is liable."

to use the Gold in the Currency Reserve for the purchase of silver. This arrangement will be a great convenience and save us the necessity of finding money for the purchase of Silver."

Two years later, when the main provisions of this act were made permanent, still newer arguments were put forward. The advantage had by this time come to be realised of holding a large reserve of India's Gold in England as a support of exchange in a time of crisis. It was urged that the money held in England would be readily available to support exchange in case of a diminished demand in England for the rupee currency.

It need scarcely be said that the arguments advanced by the Government in support of their policy of transferring substantial portions of the Paper Currency Reserve to England have never met with public approval in India. It is noteworthly that the Government of India, too, erstwhile entertained a different—and altogether opposite—view in the matter and it is not difficult to conjecture that the suggestions or influence of the Home Government may have been at work in bringing about a change in their views. It appears that when the question of regulating the Paper Currency Reserve with an eye to its effect on the stability of the exchange value of the rupee was mooted in 1896,* Lord Elgin's Government expressed themselves thus:

We believe that strong objection would be taken to our manipulating the currency reserve with the intention of producing any effect upon the exchange value of the rupee. For the same reason we are inclined to doubt whether, when a measure affecting the currency reserve is proposed from the point of view of paper currency reserve, pure and simple, we ought to allow ourselves to be influenced by the possible effect which a measure, desirable from a Currency Reserve point of view may have upon the exchange value of the rupee.

This view was expressed in 1896, when the Gold Standard Reserve was not yet established. Now that the Government have got nearly 33 crores of rupees in the Gold Standard Reserve with the avowed object of devoting it for maintenance of the exchange value of the rupee,

* See despatch dated 2nd. June, 1896, from the Government of India to the Secretary of State for India.

there could be no possible justification whatever for keeping any Gold of the Paper Currency Reserve in England. *

In 1900, Sir Edward Law, Finance Member of the Imperial Council, wrote an exhaustive minute on the currency administration in India. In this minute,—which elicited from Lord George Hamilton, then Secretary of State for India, an expression of his "high appreciation of "the ability with which Sir Edward Law has treated this "important subject and of the care shown in dealing with "various questions of detail connected with it,"—Sir Edward refers to the diversion of Currency Reserve for purposes of the maintenance of exchange value of rupee in the following terms :

> The sole object for which the Currency Reserve was originally constituted was to provide the necessary security for the encashment of notes, on presentation, and there was certainly no idea of utilising the funds so held for exchange or any other purpose not directly connected with security for the note issue. The connection which has now arisen between the Currency Reserve and the maintenance of exchange appears to me to have come about in a somewhat fortuitious manner . .

Further on, in the same minute, he again refers to this subject :

> The fact is that when the funds in the Currency Reserve were diverted from their orignial purpose and taken as providing security for the maintenance of a steady exchange, a radical and perhaps uncontemplated change was introduced, and at the risk of being considered somewhat conservative I would venture to suggest that it would be more prudent to revert, as far as possible, to original conditions as regards the treatment of these funds. The original conditions are that all funds in the Currency Reserve must primarily be held with the object and for the purpose of securing the prompt conversion of notes into such coin as the public may legitimately require.

As regards the utilisation of the Paper Currency Reserve held in England for purchasing silver, it transpires that the Gold held in this Reserve in England was not utilised for the recent large purchases of Silver, although nearly £7,000,000 were lying in the Bank of England

* Government have tried to popularise currency notes and meet the wishes of the commercial communities by making universal currency notes up to the value of one hundred rupees. They have not been able to make all currency notes universal because of the difficulty of meeting the demand of coins on presentation. With a large quantity of our Gold in India and distributed over all important centres, our power of successfully meeting any demand for coins will be enormously increased. As years pass and people get used more and more to gold coins, it may be possible to make all currency notes universal. It will be an enormous advantage to trade and commerce, and at the same time it will still further popularise paper currency and largely increase its circulation.—*Sir Vithaldass Thackersey, in the Imperial Legislative Council, on* 22-3-1912

for this special purpose. It appears these purchases of silver were financed through the agency of council drafts sold by the Secretary of State for India for the purpose.

With a view, however, to allay public feeling in the matter, a clause has been inserted in Act 1902 permitting the Secretary of State to transmit to India for retention in this country the Gold received on Paper Currency account in England. But this permission has, perhaps, never been availed of and while the clauses pertaining to the drainage of Gold out of India have been vigorously acted up to and nine crores worth of Gold belonging to India in the Paper Currency Reserve is now held back in London, this later provision has remained a dead letter to this day. The injustice to India has not ended here. The anxiety for preventing India from importing Gold has gone so far as to lead the Government to utilise India's own funds in purchase of gold coins shipped from Australia or Egypt to India, in payment of her exports, and diverting that gold direct to England. *

A charge of 1-32nd. per cent per annum is levied by the Bank of England for the custody of Gold of the Paper Currency Reserve held by that Bank in its vaults.

The amounts paid on this account in different years are as under :—

1905-6, £11 ; 1906-7, £ 1,703 ; 1907-8, £1,864 ; 1908-9 £1,155 ; 1909-10, £477 ; 1910-11, £871 ; 1911-12, £1,484 ; 1912-13, £1,711. Total, £9,276, or Rs. 1,38,140.

This is an extra loss to the Indian Exchequer.

The Story of Sterling Securities.

The first thoughts about the conversion of a portion of the Paper Currency Reserve in sterling securities were sown by Sir Edward Law. In his minute dated 28th June, 1900, he proposed the gradual disposal of the 10 crores

* The question of diverting Australian and Egyptian Gold shipments for India directly to England is dealt with at length in Chapter VI.

worth of Rupee paper, by selling one crore worth every year, and investing the money in the British securities. When this proposal came up before Lord Curzon of Kedleston, his lordship remarked :

> Sir Edward Law proposes "to gradually convert the present investments in rupee paper into Indian Government Gold Securities." He does not give any other reason for this than the desire to increase the sum total of his saleable Gold securities.
>
> But are not our investments in rupee paper very useful, and very easily convertible into rupees in times when, as lately, we have had a great demand for the encashment of current notes ?
>
> I hazard these doubts . . . not because I presume to set up my financial authority against that of the Honourable Member, but for two reasons firstly, I am not convinced that they are necessary for the success of his own scheme ; secondly I have a natural suspicion of anything that may tend, in the present early stage of our currency policy, to cause alarm. Most things that the Government of India do in the region of finance are misrepresented ; many are misunderstood. We are constantly accused of having no confidence in our policy and of not pursuing it with consistency.
>
> I think that we should be very careful about taking any steps that may seem to give ground for these charges.

Lord George Hamilton, to whom Sir Edward Law's proposals were, later on, referred for consideration, saw serious reasons against their adoption and was unable to sanction them.* But when the Act of 1905 was actually passed, the Government of India took powers to invest two crores, out of the invested portion of the Reserve, in the British securities, and in 1911, they raised this class of investment to four crores of rupees.

The feeling of the public in India is that the Paper Currency is issued in the form of vouchers payable to bearer on demand in India. These vouchers are legal tender within the limits of British India only. The currency is thus purely an Indian concern, issued and encashable in India. Whatever benefits are, therefore, to accrue from it, they should be confined to India alone.

Apart from Port Trust, Municipal and other departmental and local loans raised in India on the guarantee of re-

* Letter No. 282 dated 13th December, 1900, from the Secretary of State to the Government of India.

payment, or on the guarantee of the payment of interest thereon, by Government, the Government of India owes, in Imperial Account, and chargeable on the revenues of India, a sum of no less than Rs. 1,39,96,36,205, as under :—

Amount of public debt raised in India outstanding on 31st March, 1912.*

4½ % Holkar's Railway Loan (due 1971-78)	1,00,00,000
4 % Scindia Railway Loan (perpetual)	1,50,00,000
4 % Rampur Railway Loan (due after 1918)	47,00,000
4 % 1887 Gwalior Loan, (payable 12 lakhs a year)..	1,46,00,000
3½ % Loans	1,26,91,37,000
3 % Loan of 1896-97 (due after 1916)	8,44,88,100
Loans not bearing interest ..	17,10,505
Rs.	1,39,96,36,205

If the Government of India were to invest all the 14 crores provided by law for investment in securities in the rupee paper, not only would the demand and value for such paper be enhanced but it would also grow more popular and in future pave the way for greater increase in the amount of private capital obtainable by the Government of India for utilisation on their public works.

Apart from these considerations, the 4 crores of rupees invested in England consist of 2½ % consolidated Stock, whereas in India the money is invested in the Government of India 3½ % rupee securities. The investment of 4 crores in England at 2½ %, instead of in India at 3½ %, causes a loss to the Imperial revenues of India to the extent of Rs. 4,00,000 every year.

The Invested Portion of the Reserve.

A proposal is afoot that the note-circulation has expanded so rapidly of late that a further increase in the

* *vide* a return dated 30th May, 1912, prepared by the Comptroller General in India and published under orders of the House of Commons.

invested portion of the Paper Currency Reserve may safely be made. It would appear that no definite principles have hitherto been determined as to what portion of the Reserve ought to be locked-up in securities. The amount of funds invested in securities might naturally vary from time to time as the circulation of notes, which is regulated by a multitude of circumstances which cannot all be foreseen or estimated ahead, rises or falls. From a statement issued by the India Office, it appears that the percentage of securities to the gross circulation * has on different dates been as under :

Date.	Gross circulation.	Securities.	Percentage of securities to gross circulation.
31-3-1863	4,92,60,000	68,48,860	13.9
31-3-1873	11,13,50,610	5,69,39,530	51.1
31-3-1883	14,50,64,080	5,99 99,970	41.4
31-3-1893	26,40,18,200	8,00,00,000	30.3
31-3-1903	35,72,36,070	9,99,99,946	28.0
31-3-1913	68,97,78,240	13,99,99,946	20.3

As, however, a considerable portion of these notes is held in the Government Treasuries and the Head Offices of the Presidency Banks, it would hardly be prudent to base considerations for ascertaining the proportion of securities to total issue on these figures. It would obviously be desirable to first deduct the amount of currency notes held in the Government Treasuries and in the Head Offices of the Presidency Banks from the above amounts and find the actual amount of notes in the hands of the public, before discussing principles of investment. The "active circulation," and the proportion of invested securities thereto, would appear from the following statement :—

* In official nomenclature the term "gross circulation," probably, means the value of all notes that have been issued and not yet paid off ; the "net circulation" is the above sum less the value of notes held by the Government in their own reserve treasuries ; and the "active circulation" is the 'net' reduced by the value of notes held at the Head Offices of the Presidency Banks. If this is so, the figures of "active circulation" are a bit misleading and do not quite correctly indicate *bona fide* public circulation as no allowance is made for the large stock of notes held by the Government in their own district treasuries, which can hardly be called as being in actual circulation amongst the people.

*Active Circulation of Notes.**
(In lakhs of Rupees).

Year.	Maximum.	Minimum.	Average.	Held in securities.	Percentage of securities to circulation.
1896–97	22,38	20,57	21,40	10,00	46 %
1897–98	21,20	19,44	20,35	10,00	49 %
1898–99	22,49	19,43	20,79	10,00	48 %
1899–1900	24,41	21,94	23,09	10,00	43 %
1900–01	25,02	22,85	23,86	10,00	42 %
1901–02	24,40	22,39	23,16	10,00	44 %
1902–03	27,35	23,93	25,74	10,00	39 %
1903–04	30,30	27,44	28,70	10,00	34 %
1906–07	36,45	31,15	33,96	12,00	35 %
1907–08	35,04	32,61	33,81	12,00	35 %
1908–09	34,95	31,13	32,93	12,00	37 %
1909–10	41,47	34,19	37,81	12,00	31 %
1910–11	40,95	36,56	38,46	12,00	31 %
1911–12	44,61	38,44	41,98	12,00	29 %

We notice in India a phenomenon in connection with her note-issue, that is sufficient to indicate that though the circulation has enormously increased, the bulk of the people at large have not yet taken to the currency notes in the same confiding manner as they have done to the rupee. In every other note using country the circulation of the notes expands in the busy, and contracts in the slack, season. But in India this is not precisely the case. The circulation is larger in slack seasons owing probably to the fact that the Government District Treasuries, the Presidency and the other Banks and large merchants use currency notes as a convenient method of holding their cash balances. That is, surplus rupees not required for immediate requirements flow back into the Paper Currency Reserves. When the harvesting of crops begins and the small cultivators have to be settled, these notes are gradually cashed and rupees are released. The vending of agricultural products in villages and markets necessitates large disbursements of funds mostly to petty

* The figures of circulation for the years 1896-97 to 1903-04 are taken from the Government of India letter No. 295 dated 18th August, 1904, to the Secretary of State for India. Those for 1906-07 to 1911-12 are from "*Indian Currency and Finance*" by Professor J. M. Keynes, 1913, page 54.

dealers in the form of rupees. Illiterate money lenders, village artisans, and cultivators persist in being paid in actual coin. This indicates that the system of using paper money has not yet ingrained itself in the hearts of the people and it has not yet become a second nature with them.

Taking all these facts into consideration, it would, perhaps, be hardly prudent to lock-up a large portion of the reserves in securities. Many people hold that the proportion of reserve invested in securities ought to be restricted to 33 % of the average *active* (not *gross*) circulation. I think even in an advanced country like England, where notes and cheques have to a large extent displaced the use of actual coin, and notes are not looked upon with the least suspicion by even the most illiterate and backward classes of the people, the fiduciary portion of the Reserve held by the Bank of England against its note-issue averages about one-third of the circulation. If this be so, it is most important that the invested portion of the Reserve in India ought not ordinarily to be more than 33 % of its average *active* note circulation.

In view of all that is written above it ought to be distinctly laid down that all further investments in the securities, in the Paper Currency Reserve, shall be made in India. The Paper Currency is entirely a pure Indian concern and people cannot help believing, when any portion of the Currency Reserve is held either in the form of British securities or in Gold at the Bank of England, that the treatment meted out to them by the Government in monetary affairs is not only not in conformity with their own wishes but is entirely subversive of all feelings of national pride and self-respect of the people. And the growth of such ideas cannot but be prejudicial to the popularity and extensive use of the paper money.

The want of elasticity in our System.

When the Paper Currency was first introduced, it was understood that it would impart a sort of elasticity to the general currency system of the country. This

elasticity is secured in England by the Bank of England discounting a greater volume of Home Bills in the busy season, and increasing its note circulation temporarily without a corresponding increase of metallic reserves. In India, however, the benefits which ought to have accompanied the introduction of the Paper Currency are not yet conferred on the people by the Government of India, who control this system. There is no method in India, corresponding to that of England, whereby any temporary stringency of money during busy season could be relieved by the use of some latent capacity of expansion in her currency. India's money is being freely lent in England at very low rate of interest (averaging about 2¾ % per annum) but the people living in the country itself suffer every year great difficulties from want of sufficient capital to meet trade requirements. The interest on the security of Government paper goes up to 7, 8 and 9 per cent during almost every winter in India, while people in England are comfortably using India's money at 2¾ %.*

Our currency system is internally quite inelastic. There is no source by which any temporary increase in the media of exchange could be effected, except by import of capital from England. A remedy to such an unsatisfactory condition of affairs could be had at hand, if the Government would cease to regard the note reserve as a close preserve" of their own to the temporary use of which the Indian public may never aspire. The rapid growth in the circulation of notes and their popularity seem to indicate that the restrictions regarding the retention of the entire liquid portion of the Paper Currency Reserve intact may safely be relaxed in so far as to lend a part of it, on first class security, for a few months during the busy season. That this could be done without in the least endangering the stability of the currency system and to the great advantage of trade in India is admitted by the highest authorities on economics and finance.

* In India, even *taccavi* advances made by the Government to agriculturists for the purchase of cattle and seed in famine times are charged for at 6% interest,

A definite proposal for utilising the funds of the Paper Currency Reserve for assisting the money market in India in times of stringency was put forward before the Government of India by the Bank of Bengal in a letter dated the 2nd December, 1899: *

The suggestion which my Directors would make is that when the Bank rate rises to a height that indicates undue pressure, the Presidency Banks may be able to rely on procuring loans through the Comptroller General either from the Reserve Treasury, or failing this, from the Paper Currency Reserve, at the current rates for demand loans on Government paper, rising and falling therewith. In submitting this suggestion my Directors desire me to state that it is made with the sole object of ensuring a steady supply of loanable capital at moderate rates. These loans would yield profit to Government, and benefit all who are interested in a steady money market, while the Bank would undertake, without profit to itself, the risk and labour involved. My Directors would also submit that the Paper Currency Reserve is the most suitable fund to devote to this purpose, not only because it is large and steady, and, as experience has shown would have been found ample from first to last to have relieved each monetary pressure from which India has suffered, but because it is to the Paper Currency that other nations look for assistance at times of monetary strain, and if effect is given to the proposal now made, the elasticity of the central banking resources, of which the Indian money markets were deprived by the transfer of the Paper Currency to Government, will be restored.

The above proposals did not, however, meet with the approval of the Government of India, who in their letter to the Secretary of State for India dated 18th January, 1900, remarked:

Regarding the general danger involved in the financing of trade by the Government, we have before us the words of Lord Salisbury's despatch of 6th May, 1875, "Capital supplied by Government and not representing the savings of the community, "is a resource on whose permanence no reliance can be placed, and which therefore "tends to lead trade into dangerous commitments". The warning conveyed in those words still holds good.

The grant of loans from the Paper Currency Reserve was, the Government of India further observed, open to fatal objections. Their duty, as they conceived it, was to maintain that proportion of coin in the Currency Reserve which would be necessary for ensuring convertibility. If the proportion were large enough to admit of loans being made therefrom, then it was unnecessarily large, and the general tax-payer, not any particular section of the commu-

* This proposal was strongly supported by the Bank of Madras.

nity like the Banks, should benefit by the substitution of securities for superfluous coin.* It need hardly be said that these observations of the Government are not in conformity with the practice followed by almost every civilised Government in the world. If the contention that grant of temporary financial relief by Government to a strained money market would engender in private enterprise an undesirable habit of developing the trades and crafts of the country beyond legitimate means, and would make it less dependent on its own resources, be really sound, it puzzles the people why the Government have allowed India's cash balances (which are far more subject to sudden calls than the Paper Currency Reserve) to be invested in London with private borrowers to the extent of nearly 15 crores of rupees year after year. Do not the Government realise that the withdrawal of this huge amount from the market at a time of necessity would seriously cripple private resources even of a big market like London? What the public in India requires is not a continuous help from the Government all round the year but temporary reliefs when—and only so long as—the Presidency Bank rate has risen over, say, 6 %, thereby indicating *bonafide* shortage of funds in proportion to demands of the market. The volume c f cash held in silver and gold coins in the Currency Reserve ought, it is admitted on all hands, to be in excess of the minimum required to ensure convertibility in normal times of peace and prosperity and, as such, it is quite large enough to enable temporary help being given to the Indian money market in times of need. The objections raised by the Government of India do not, therefore, convince the people and they persist in believing that the Paper Currency system loses half of its benefits, and most of its charm, if it is bereft of methods by

* Commenting on these observations of the Government of India, Mr. Lionel Abrahams, Permanent Assistant Under Secretary of State for India, said in his evidence before the Royal Commission on Indian Finance and Currency (1913):

"These objections seem to me very unconvincing. The coin in the Paper Currency Reserve "has long been much in excess of what is needed to ensure convertibility and quite large enough to "enable loans to be granted to the Presidency Banks without inconvenience to the Government. "If the strength of the Banks is held to be sufficient to justify such loans, the coin reserve can be main-"tained without difficulty at the level required to make them possible; and the loans besides being "beneficial in a way in which an addition to the permanent securities held in the Reserve would "not be, would probably yield interest to the same, or nearly the same, amount *per annum*."

which the volume of currency within the country could be temporarily expanded by some credit arrangement to meet the seasonal demands of trade.

"Great advantages may be obtained",—says Professor Keynes in his remarkably able and sympathetic treatment of this subject in his work on Indian Currency and Finance,—"if the surplus funds in the Paper Currency "Reserve be used not as a permanent or quasi-permanent "loan to Indian trades, but to provide elasticity in the "seasonable supply of currency and to make possible the "increase in the stock of purchasing power in the form of "money which is temporarily required in the busy season."

And again :

I think the time has practically arrived when the whole of the liquid portion of the Paper Currency Reserve is not required in addition to the Gold Standard Reserve proper. A busy season will soon come when the Government might lend some part of its reserves in India without endangering in the least the stability of its system and to the great advantage of Indian trade. It ought, at least, to have the power to do this.

Paper Currency and the State Bank of India.

There is some talk about the establishment of a Central State Bank for India to take over, among other things, the management of the Paper Currency. The idea is no doubt very grand and would appeal to most people. But, despite its defects and shortcomings—and notwithstanding the criticisms that are levelled against it—a state-managed paper currency is a more improved and a better system than that prevailing, say, in England, where the paper currency is managed, subject to general State control, by the Bank of England. Not that the management of the Bank of England in respect of its Note-issue Department is in any way open to suspicion or objection, but in the peculiar circumstances of India, I think the best agency for the management of her currency is the State alone.

It would be interesting to know that when the idea of establishing a Paper Currency was first conceived by Mr. Wilson, the question of employing Bank agency was

duly considered. Referring to this phase of the matter, Mr. Wilson (in his memorable speech on the 3rd March, 1860) remarked:

> There are peculiarities in our position in India, and in the system which, on the part of the Government, I am about to propose, which would render it even more difficult than usual to employ the agency of Banks in India. In the first place the system is to be universal. How many years should we have to wait before we could expect that any Banks, however extensive their capital, could establish branches throughout the whole country for this purpose? But, again, even though that difficulty were got over, we have still another which I regard as insurmountable. Our notes are to be a legal tender; they are to be received by every private person, as well as by the Government in discharge of all ordinary claims. To attach this condition to our notes, we must provide absolute and undoubted security for their payment, not only for their ultimate payment but for their convertibility into coin when required. Well, Sir, if we employed the agency of a Bank, we shoud require not only a deposit of securities which would ensure the ultimate payment of notes, but also of a proper reserve of bullion, to secure their prompt and immediate payment. We could not make them a legal tender on any other condition. Well, but the business of a Bank established upon such a scale could not be, and it would not be desirable that it should be, confined to the issue of notes. It would extend to all other banking business. It would hold deposits, it would hold bills of exchange, it would discount and negotiate mercantile paper: in short, it would have a great variety of creditors other than those who held its notes. Would it then be practicable, would it be fair towards the great body of its creditors, if so large a share of its assets, as I have said, should be set aside as security for its notes in favour of one class of its creditors, to the possible injury of all other classes? Would it be fair to protect the note-holders at the possible risk of the depositors? . . . . On every ground, then while we wish to see banking establishments extended, we have come to the conclusion that we cannot avail ourselves of the agency of Banks for a general Indian Paper Currency.

It may no doubt be true that since the above opinion was expressed, India has passed through many changes. We can, in the year of grace 1913, bring much better experience and wider knowledge to bear on the subject of a bank organisation than Mr. Wilson's ideas, and many of his objections to the control of paper currency by a bank have, through lapse of time, altered circumstances and undreamt of developments, lost much of their force and antagonism. The note circulation in India has so wonderfully expanded and it has built up such a magnificent reserve that the biggest and best managed Bank in the world may well covet to have a hand in its management. But, as

Mr. Thomas Smith, Agent of the Allahabad Bank, aptly remarked in his evidence before the Royal Commission, Bank notes "would not for many years carry the confi-"dence which the existing Sirkar's notes do, and the recent "marked development in note circulation might be seriously checked."

Looking deep into the subject one discerns that the real object of the bureaucracy in transferring their own burden on the shoulders of a State Bank is, perhaps, not so much due to a desire of relief from the burden of banking functions which the Government of India have taken upon themselves of their own free will and accord, as to avoid the fire of criticism that has of late been directed towards them in respect of their management of the Indian Finances and Currency.

Mr. Lionel Abrahams, Permanent Assistant Under-Secretary of State for India, had in fact owned this fact when in reference to a question put to him by Mr. Austen Chamberlain, in the course of his examination before the Royal Commission on Indian Finance and Currency (1913), regarding the advantages to be gained by transferring the work of the sale of Council Bills to the proposed State Bank of India, he admitted that the gains were not very substantial, and added :

We, in the India Office, as I dare say you realise, are not in any cowardly sense afraid of criticism. We often feel that we have to face adverse criticism in the discharge of our public duty, but *prima facie* if there are two methods of doing a piece of business, one of which may expose you to criticism . . . . and then there is another method of doing business which is likely to avoid that criticism, the second method has, so far as it goes, an advantage. If the Secretary of State sells five million pounds extra bills in the year, there is always a possibility that he may be criticised. I do not say that it is very serious or that he would be much hurt by it. If the (proposed) Bank of India, corresponding, say, to the Bank of Japan, sold five millions extra bills in the same year, and in the same way, people would probably say—"Of course, these masterly bankers know their own business", and there would be advantage in the avoidance of criticism. It is a point of perhaps much greater importance, that this selling of bills by the Bank would go with the transfer of other Government business to a bank. I mean if it were a question of merely transferring to a Bank the sale of Council Bills and nothing else, then the only advantage would be the one which I have mentioned,

and on that account it would not be worth while doing it, but if you add to it the transfer to the Bank of the lending of balances both in England and in India, and with certain other advantages, then the cumulative effect might be considerable.

The majority of Banks in India say they do not require additional banking facilities proposed to be conferred by the creation of a State Central Bank of India. The people themselves are not convinced of its advantages. Where, then, is the necessity to start a huge Bank, if not to shelter the bureaucratic activities from criticism and to avoid the searching light of open examination on the free investment of India's funds in England

CHAPTER VI.

The Apple of Discord.

There are no high officials whose business it is to make finance the chief study of their life. The Financial Secretaryship is an incident in the career of a successful civilian. A Financial Member of Council is apt to come to the peculiar problems of his office with a fresh mind. Thus the financial officers of Government spend five years or so in mastering a difficult subject and have then reached a seniority which warrants promotion to duties of some other kind. So far as the Government of India are concerned, questions of finance and currency are in the hands of intelligent amateurs who begin with the timidity of ignorance and leave off just when they are becoming properly secure of their ground. It is not astonishing that the centre of power in these matters has tended to gravitate to the India Office and the India Council in London. For the officials and advisers of the Secretary of State have grown up in familiarity with the problems of Indian currency. Control from the India Office is aways looked on, from an instinct often founded on wisdom, with jealousy and with suspicion; but in questions of currency they are likely, as things now are, to have the wider knowledge and experience. Yet the element of continuity supplied by the India Office—though, as I read the history of the last decade, it has been invaluable in guiding the evolution of the currency—is no proper solution of the difficulty.—*Professor John Manyard Keynes, M.A.*

The Growth of Cash Balances.

Prior to the year 1872 the rate of exchange at which the Secretary of State could sell his drafts on India did not fall materially below 2*s.* the rupee. In 1872-73 the average rate stood at 1*s.*-10.754*d.* the rupee. But, in consequence of the fall in the value of silver, the exchange rate thereafter began steadily to decline. In 1875-76 the average rate for the year was 1*s.*-9.626*d.* ; in 1877-78, 1*s.*-8.791*d.* ; in 1885-86, 1*s.*-6.254*d.* ; in 1886-87, 1*s.*-5.441*d.* in 1887-88, 1*s.*-4.898*d.* ; in 1890-91, it shot up temporarily to 1*s.*-6.089*d.* and dropped again to 1*s.*-2.985*d.* in 1892-93 and to 1*s.*-1.100*d.* in 1894-95.

Such a steady decline was a continuous source of anxiety and disturbance to those responsible for the

finances of India. For the period from 1872-73 to 1898-99 there was an average deficit between the amount provided in the Budget-Estimates for, and the actual drawings of, the Secretary of State, of £837,525 per year. On several occasions the sale of Bills had to be suspended for months together.

The unsteady condition of the exchange reflected itself in the increased amount which had to be raised from revenues in India to meet the Home charges. Thus, in the year 1895-96, the sum realised in England by the sale of Council drafts was £17,664,492 against the payment of Rs. 31,08,54,373 from the treasuries in India representing an average rate of 1*s.* 1.638*d.* per rupee. Had the same sterling sum been remitted at the average rate obtaining in 1872-73, the sum in rupees representing the same remittance would have been Rs. 18,63,17,925, or a saving of Rs. 12,45,36,448 in one year's drawings.

To meet the hiatus caused by this depreciation in the value of the rupee, fresh taxation had to be imposed. Thus, the Income Tax was imposed in 1886-87; salt duties were increased in 1888-89; import duty on petroleum and some other minor measures were introduced in 1888-89; customs duties were widened and enhanced in 1894-95; import duty on foreign cotton goods and excise duty on cotton goods manufactured in the country were introduced in 1895-96.

The Government were confronted with increasing deficits every year; new taxation could not be imposed *ad infinitum*. The problem was how to impart steadiness to the exchange value of the rupee. Acting on the recommendations of the Herschell Committee, the Indian mints were closed in 1893. The effect of this step was that the exchange soon began to get steady and rise higher. In 1896-97 it stood at an average rate of 1*s.* 2.450*d.*; in 1898-99 it mounted up to 1*s.* 3.978*d.* and has stood steady at 1*s.* 4*d.* since 1900.

The increase in revenue occasioned by the taxation which was imposed during the days of unsettled and declining exchange is roughly calculated as under:

	(lakhs of Rupees).
Income Tax (approximate)	200
Import duty on Petroleum. *	68
Increase in Salt duties (as estimated at the time of imposition in 1888-89).	172½
Enhanced and widened customs duties (as estimated at the time of introduction in 1894-95) ..	135
Import duty on cotton manufactures. *	190
Excise duty on cotton goods. *	55
Total increase ..	820½
Against this, however, there should be set off a net reduction in cotton duties (effected in January, 1896) estimated at about..	45
Net increase	775½

When exchange got steady and surpluses began to accrue and grow large, the Government of India remitted some portion of the above increase in the form of certain concessions and reductions in the incidence of taxation.

	(In lakhs of Rupees.)
The salt tax has been brought down to its former level. This wipes off	172½
1903. Exemption from Income Tax granted to private incomes below Rs. 1,000, estimated sacrifice of revenue	36
1905. Postal reductions and abolition of Famine cesses; estimated sacrifice of revenue	30
1906. Abolition of certain land cesses; estimated sacrifice of revenue	82
1907. Postal concessions	22
Total	342½

It may be noted that there has been a rapid and all round expansion in the revenues of the Government during the last thirty years. The periodical re-settlements of

* These figures are taken from the Budget of the Government of India for 1913-14.

land revenues have resulted in enormous enhancement in the income therefrom and the increased prosperity of the people and the growth of trade and commerce have *pari passu* reflected themselves in the growth of the Government revenues. Even if we set aside this increase in receipts of ordinary revenues to cover a proportionate growth in expenditure in the different departments of administration, there would be little justification to continue for any length of time the new imposts of taxation that were resorted to as a measure of emergency to tide over peculiar and unforeseen contingencies.

In considering the effect of the remissions made on the total revenues of the country, we ought not to overlook that the recently imposed silver duties are estimated to bring in an income of about 80 lakhs a year and the investment of India's cash balances in England (since 1902) now adds another 150 lakhs of rupees a year thereto. Besides this, certain customs, excise and stamp duties were enhanced in 1910. It is, however, argued that this enhancement ought to be set aside to cover the approaching reduction and gradual extinction of the opium revenue.

The complaint about the incidence of taxation being heavy in India in proportion to the average income per head of the *ryot* and the relative cheapness of the administrative agencies has often been made in the press, and on the platform. Mr. M. De P. Webb estimates that during the last four years the Government have collected revenue in excess of their actual expenditure as under:

£1,500,677 excess in the year ending 31st March, 1910
£5,897,489 excess in the year ending 31st March, 1911
£4,909,489 excess in the year ending 31st March, 1912
£7,500,000 excess in the year ending 31st March, 1913

The Budget estimate for 1913-14 shows a surplus of £1,326,300, after providing in full for all expenditure chargeable to the revenues.

A more convincing indication of the excessive taxation would be formed from the steady growth in the cash balances of the Government of India during the last few years.

Cash Balances. *

On March 31, in	Held in India.	Held in London.	Total.
	Rs.	£	£
1901	13,15,15,305	4,091,926	12,859,613
1903	18,12,20,820	5,767,786	17,849,174
1905	15,89,66,550	10,262,581	20,860,351
1907	15,04,03,980	5,606,812	15,633,744
1908	19,27,71,195	4,607,266	17,458,679
1909	15,35,32,245	7,983,898	18,219,381
1910	18,44,31,420	12,799,094	25,094,522
1911	20,35,03,830	16,696,990	30,263,912
1912	18,44,01,000	18,390,013	30,616,746
1913	28,94,44,000	8,784,205	28,080,471

It may be added that the money received by the Government in the Post Office Savings Bank and on account of Postal Life Insurances is merged as received with the general balances of the country. This fund has steadily grown bigger of late as the following statistics will show :—

Post Office Savings Banks.

Year.	Additions to deposits during the year, including interest. (Lakhs of Rupees).	Number of Depositors.
1902–03	91	....
1903–04	109	....
1904–05	125	10,58,813
1905–06	78	11,15,758
1906–07	103	11,90,220
1907–08	68	12,62,763
1908–09	28	13,18,632
1909–10	109	13,78,916
1910–11	166	14,30,451
1911–12	263	15,00,834
1912–13	250	15,00,000

* These balances do not include the amounts held in the Gold Standard or Paper Currency reserves.

The balance at credit of the Post Office Savings Bank on 31st March, 1912, amounted to Rs. 18,89,87,500. The balance of the Postal Life Insurance and Annuity Fund stood on the same date at Rs. 86,15,243. The increases in these funds have no doubt contributed their quota to the inflation of the general cash balances.

But, even when due allowance is made for such increase as may have been effected from the above sources, the rapid rise in the figures of cash balances would clearly show that either the people have been heavily taxed, or the Government have borrowed more funds than were actually required. There has anyhow been a heavy withdrawal of money from the capital available for the use of the people and, in a country like India, suffering from a chronic want of cheap capital, such a huge drain cannot but retard her economic development.

Councils and Transfers.

The steady enlargement of the cash balances held by the Secretary of State for India has been rendered possible owing to large surpluses of funds in India occasioned by (1) over-taxation or over-borrowing, or both, combined with (2) increase in deposits of private savings with the Post Offices.

Since there is always a large balance of trade in favour of India, merchants and bankers instead of shipping gold to India in payment of India's dues tender the same to the Secretary of State in London—owing to London being a great centre of trade, a large part of the world's international debt is adjusted in the London money market—and the Secretary of State issues Bills of Exchange on Indian Government treasuries at Calcutta, Bombay and Madras, where on presentation rupees are delivered and then distributed all over India.

The method of drawing funds from India to meet Home charges, by means of Bills of Exchange on India is said to date back from the early part of the

last century. Reference is made to these Bills of Exchange in the correspondence passed between the Court of Directors of the East India Company and the Governor-General in India in 1813. The sales of bills appear to have been practised, though somewhat intermittently, from 1834 to 1857, when they were suspended for a space about 5 years. In 1862, when the issue of Council Bills was resumed, the Secretary of State sold his Bills monthly at a fixed rate of exchange; then fortnightly sales were substituted; now, for many years, sales of the Bills have been conducted weekly *.

The procedure followed is based more or less on an auction system and is this. On every Wednesday a notice is exhibited at the Bank of England inviting tenders to be submitted on the following Wednesday for Bills of Exchange and Telegraphic Transfers on the Government of India. The notice states a limit which the aggregate allotments will not exceed. The tenders are opened at the Bank of England at one o'clock on Wednesdays in presence of the Governor or Deputy Governor of the Bank and at least one member of the Council of the Secretary of State of India. The Secretary of State does not bind himself to allot the whole amount mentioned in the notice. As a matter of practice, he does not accept any applications at prices lower than 1*s.* 3 29/32*d.* for Bills and 1*s.* 3 15/16*d.* for Telegraphic Transfers †.

In 1904, it was the practice to make a difference of 1-32*d.* between the prices of Bills and of Telegraphic

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* There are four classes of Bills drawn by the Secretary of State for India:

(1) Ordinary Bills of Exchange sold by public tender every Wednesdy, known as "Councils."

(2) Telegraphic Transfers sold on Wednesdays, called abbreviately as "Transfers."

(3) Bills of Exchange sold on any day excepting Wednesday, called "Intermediates."

(4) Telegraphic Transfers granted on any day excepting Wednesday, styled "Specials."

† Many people consider that with the closure of mints the necessity for putting up rupees to auction in London every Wednesday has entirely disappeared.

In 1907, Lord Minto's Government in enunciating the principles as regards the method of allotting Bills and Transfers observed that "there appears to be no advantage in asking for tenders. If . . . . . all the tenders were at the highest rate it would be useless; and if lower rates were offered by the tenderers in competition with each other it would be mischievous. Our aim is to encourage the tenderers to offer the highest rate which we are willing to accept and this end could be best obtained, and confidence inspired, by offering the transfers at a fixed rate. . . . . . The transfers would be allotted in order of application." Though these remarks were made in respect of Bills drawn on London, they apply *mutatis mutandis* to the drawings of the Secretary of State for India as well.

Transfers when the Indian Bank rate did not exceed 6 % and a difference of 1-16*d*. when the Bank rates were higher. In 1906, in view of the reduction which had taken place in the time occupied by the mails in reaching India from England, and in the freight of Gold, it became the practice to make a difference of 1-16*d*. between the prices of Bills and Transfers when the Indian Bank rates reached 9 %. This difference is calculated to represent the approximate cost of interest on a rupee for the period of a fortnight intervening between the date of payment of a Telegraphic Transfer and a Bill of Exchange.

Tenders for less than Rs. 10,000 are not accepted. If two or more tenders are received for the same rate, and if the amount to be allotted is less than the total amount of both or all, a *pro rata* allotment is made provided that no Bill is granted for a less amount than Rs. 5,000. Payment for Bills allotted must be made at the Bank of England within a week.

Intermediate Bills are allotted on all week days on the condition that if, at the preceding allotment, Bills have been allotted to the full amount previously announced, intermediate Bills are only granted at a rate exceeding by at least one thirty-second of a penny, per rupee, the minimum price at which an allotment was made. If, however, the minimum price has exceeded 1*s*. 4 3/32*d*. the rupee, this condition is not enforced. The Secretary of State in Council is prepared to sell intermediate Bills at 1*s*. 4⅛*d*. the rupee without limit. If an intermediate Bill is granted on a Tuesday, payment must be made on the same day; in any other case, payment must be made not later than the following Tuesday.

Applications for Telegraphic Transfers are received at the Bank of England at any time between 11 and 3, except on Saturdays when the hours are from 11 to 12-30. Transfers are granted only in thousands of rupees and in no case for less than one lakh, except that an applicant to

whom a transfer has already been granted at the time of weekly allotment of Bills may be allowed an additional transfer of an amount (in thousands of rupees) less than one lakh, provided that such additional transfer is paid for on the same day as the transfer originally granted.

The amounts for which Bills and Telegraphic Transfers have been made upto date, with the sterling realised, since 1st April, are announced on every Wednesday at the Bank of England.

The Secretary of State is willing to purchase sovereigns in transit from Australia or Egypt by granting, in payment thereof, Telegraphic Transfers on Calcutta, Bombay and Madras. The bills of lading relating to all such sovereigns should be made out in his name, or if the sovereigns are shipped before a transaction in respect of them has taken place, the bills of lading should be endorsed in his favour.

The date of issue of the telegraphic transfers and the rate of exchange are subject to the following conditions :—

(*A*) *In the case of Gold consigned from Australia.*

At the option of the institution tendering the sovereigns, transfers are granted either (1) ten days after the departure from Fremantle of the vessel in which the sovereigns are shipped, at the rate of 1*s*. 4*d*. the rupee; or, (2) on the day following the departure of the vessel from Fremantle, at the rate of 1*s*. 4-1/32*d*. the rupee.

(*B*) *In the case of Gold consigned from Egypt.*

At the option of the institution tendering the sovereigns, transfers are granted either (1) on the advertised date of arrival at Bombay of the next Peninsular and Oriental vessel leaving Port Said after the date of shipment of the sovereigns to London, at 1*s*. 4*d*. the rupee; or, (2) on the date of shipment from Egypt to London, at 1*s*. 4-1/32*d*. the rupee.

The principle governing this arrangement is that payment ought to be made on the day when the sovereigns, if shipped to India direct, would in the ordinary course have reached the nearest Indian port, and if an earlier payment is made, an extra charge to cover interest for the intervening period is added.

The extent of drawings by the Secretary of State on the Governor-General in India is governed *inter alia* by the following administrative considerations:

(1) To draw from the treasuries of the Government of India during the financial year the amount that is laid down in the Budget as necessary to carry out the Ways and Means programme of the year.

(2) To draw such further amounts as may be required to pay for purchases of Silver bought for coinage purposes. Such purchases are sometimes made out of Gold held in the Paper Currency Chest, but if—as, with rare exceptions, is always the case—the market for the Secretary of State's Bills is strong enough to enable him to pay for his purchases of Silver by additional sales of Bills, he takes advantage thereof and the reserve of Gold in the Currency Chest is held in tact as a safegurd against risks of fall in exchange.

(3) To draw such futher amounts as an unexpectedly prosperous season may enable the Government of India to spare, to be used towards the reduction or avoidance of debt in England.

(4) To sell additional Bills and Transfers to meet the convenience of trade. This procedure serves, sometimes, to avert extreme stringency in the London Money Market which would be created if the Secretary of State, by refusing to sell drafts for the convenience of trade, suffered large quantities of sovereigns to be taken from London to India, for any serious disturbance to the greatest money market of the world cannot but be injurious to the trade of India, and to her interests as a frequent borrower in the London market*, so that free sales of Council drafts for the purpose of averting such a disturbance is, in the opinion of the Secretary of State for India in Council, at times fully justified, and, indeed, urgently required in the interests of India.

In pursuance of these important considerations, the practice which, in addition to the normal weekly allotments of Bills and Telegraphic Transfers, has, since 1904, been in force is as follows:—†

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* It may be remarked that the dominating importance of the London money market for the purpose of raising loans required for capital expenditure in India is now on the decline. Mr. Lionel Abrahams, referring to this matter in his oral evidence before the Royal Commission, said that owing to spread of rumours of growing unrest in India it had in recent times been becoming more difficult, year by year, to issue loans on favourable terms in England. Thus, in 1912 the 3½ % loan of the Government of India for 3 crores of rupees was issued at an average price of 96¼, whereas the India Sterling loan for £3,000,000, underwritten, was issued at 93.

† The drawings have sometimes been excessively heavy. Thus for instance, no less than £3,500,000 (5¼ crores of rupees) worth Transfers were sold during the space of 16 days in January February, 1912.

(1) To sell Bills of Exchange invariably without limit when the price is as high as 1*s.* 4⅛*d.*.

(2) To sell Telegraphic Transfers without limit at 1*s.* 4 5/32*d.* if the Indian Presidency Bank rate of interest does not exceed 6 % (increased to 8 % since 1906) and at 1*s.* 4 3/16*d.* if it exceeds that rate.

(3) To issue Telegraphic Transfers on India in payment for sovereigns which the Secretary of State has purchased in transit from Australia or from Egypt to India. This practice has been resorted to as a means of preventing an excessive import of sovereigns into India.

The facilities for transference of funds from India to England, thus offered, have resulted in withdrawal of money on an extravagantly large scale out of India.

An idea of the heavy drawings made by the Secretary of State for India on the Indian treasuries may be formed from a perusal of the figures drawn during the last ten years. In connection with these figures it may be mentioned that the rates of exchange obtained have not infrequently been well below the gold import point, that is to say, no one could have afforded to bring sovereigns from England or elsewhere into India at those rates. This has, often, been necessitated by the amounts offered for sale being more than could be sold with maximum advantage to the state funds, which is exceedingly objectionable as, in virtue of their position as the sole supplier of the coined rupee, the Government are always in a position to dictate, within reasonable limits, their own terms and if at any time the trade is not so brisk as to pay the Secretary of State the full value of his rupee, the sales could well be suspended for a while till exchange rises—as it does for several months in every year—particularly as the Secretary of State has always got heavy cash balances or Indian funds on his hands in London.

Mr. William Bernard Hunter, Secretary and Treasurer of the Bank of Madras, voiced this view in definite terms in the course of his evidence before the Royal Commission on Indian Finance and Currency (1913):

When exchange weakens, that is when Telegraphic Transfers and Councils cannot find buyers at 1*s.* 4 1/32*d.* and 1*s.* 4*d.* respectively, they should cease to be offered. . . . . (the question was put by the

Chairman). That is the essential portion of your scheme so far as exchange is concerned?—To my mind it would strengthen exchange very much if that were done. When they are unsaleable at those rates it shows distinctly that there is no demand. It is easier to keep exchange up than to bring it up again when once it has dropped. The best way is to keep it steady.

Mr. Webb's views are still more rigid. He says:

The sales of Council Drafts should be strictly limited to the sum required to meet the Home Charges, and no allotments should in any circumstances be made below, say, 1*s.* $4\frac{1}{8}$*d.* to 1*s.* $4\frac{3}{32}$*d.* —*i.e.*, about the present equivalent of specie point for gold imports into India. The sum required in London for Home Charges having been realised, no further sales of Council Drafts should be made except for the express purpose—duly notified to the public—of purchasing metal for the manufacture of further token coinage. Such special sales of Council Drafts should not be made at anything below specie point for gold imports.

In order to illustrate my remarks as to the excessive drawings, I give below a schedule showing:

Amounts drawn by the Secretary of State for India on the Government treasuries in Calcutta, Bombay and Madras.

Year.	Amount.	Average rate of Exchange.	Minimum rate of Exchange.
	£	Sh.	Sh.
1903–04	23,859,303	16.049	15.875
1904–05	24,425,558	16.045	15.970
1905–06	32,166,973	16.042	15.937
1906–07	33,157,196	16.083	15.937
1907–08	16,232,062	16.029	15.875
1908–09	13,915,426	15.931	15.875
1909–10	27,096,586	16.041	15.875
1910–11	26,783,303	16.060	15.875
1911–12	27,058,550	16.083	15.937
1912–13	27,759,706	16.058	15.970

In addition to the above amounts a sum of £12,238,138 was remitted by the Government of India to the Secretary of State in 1907-08 by means of Bills drawn on, and shipment of sovereigns to, London.

The fall in the rate of exchange below the specie point is considered due to excessive drawings. If amounts sufficient to meet actual payments were, alone, drawn, this loss to the Indian Exchequer would have been avoided. Public opinion in India strongly criticises the policy underlying, and feels uncomfortable at such heavy drawings,

which have been far in excess of all possible requirements. It is generally urged that the India Office is straying clearly beyond its legitimate functions in drawing funds from India to cater for international trade requirements; when once the State's proper demands are satisfied, futher accumulation of Indian funds in England should have been discouraged.

As a step towards this reform, the general cash balances of the Government of India should be considerably reduced by the increase of non-recurring expenditure, the budgeting of large deficits and the suspension of fresh borrowings for some time to come.

The Lucky Borrowers.

The procedure regulating the issue of funds from the Secretary of State's cash balances in London on loan or deposit consists of placing the money with certain bankers, discount houses, stock brokers, etc., of standing and respectability. A list of houses that have been fortunate enough to secure the Secretary of State's approval is maintained in the India Office. Admission to this privileged list is obtained by application addressed to the Broker, who communicates the application to the Accountant-General. The Borrowers' list is scrutinised periodically by the India Office Finance Committee. *

In general keeping with its premier position in the region of Finance, the India Office scorns to deal in small sums and in accordance with the decision of the Secretary of State for India "loans are made in sums of £50,000 (Rs. 7,50,000) or in multiples of £50,000."

The usual periods for which loans are granted are from three to five weeks, or occasionally for six weeks,

* Commenting on the subject of these loans and the composition of the Finance Committee, Sir Vithaldass Thackersey said in the Imperial Legislative Council on 22nd March, 1912:—

"I wish to speak with great respect of the Secretary of State's advisers. They are eminent men, but it is only necessary to mention the positions they occupy in the world of London Finance to show that, human nature being what it is, they cannot be expected to be wholly free from a certain bias. Lord Inchcape is a director of the National Provincial Bank of England, Ltd.,—a very powerful Bank. Sir Felix Schuster, Bart., is a director of the German Bank of London, Ltd., and also a Governor of the Union of London and Smith's Bank, Ltd. Mr. Lawrence Currie is a managing partner in Glyn, Mills Currie & Co.,—a large and powerful private banking house."

but as lately the funds in the possession of the Secretary of State have been far in excess of his immediate requirements, the loans originally granted for short periods and at short-period rates of interests have not infrequently been renewed from time to time *.

The loans are granted on the security of the following classes of Government or quasi-Government paper:

India Debentures; India Bonds; Debentures of Railway Companies (interest whereon is guaranteed by the Government); Treasury Bills; Exchequer Bills; Exchequer Bonds; India sterling loan Bills; Metropolitan Water Board Bills and London County Bills. These are all accepted at par value. In respect of other British and Colonial Government securities, most of these (such as all Parliamentary Stocks or Annuities; $3\frac{1}{2}$ %, 3 % and $2\frac{1}{2}$ % India Stock and Stock certificates; Rupee Paper; different kinds of Metropolitan stocks; Indian Guaranteed Railway Companies fully paid-up Debentures; Corporation of London Debentures; Bonds or Bills of Colonial Governments or of Municipalities in Great Britain with a population of 50,000 and upwards provided they mature within next five years) are accepted in security at the current market value with a cover of five per cent.

The Accountant-General at the India Office informs the Broker daily of the amount of loans that may be renewed on fresh terms, of the amount of new loans that may be made, or of the amount of loans that must be called. The Broker is responsible for obtaining the best possible rate of interest. The payment is made by an advice being sent to the Bank of England to place the amount of loan sanctioned to the credit of the India Office Broker but the loan is not actually advanced until the requisite securities are duly transferred in favor of, and made over to, the

* The average amount in cash balance (excluding over 25 crores of rupees in Gold Standard Reserve and over 9 crores in Paper Curreny Reserve) in the hands of the Secretary of State during the year 1912-13, was nearly 15 crores of rupees.

Secretary of State for India in Council, or deposited with the Bank for account of the Secretary of State.

The Broker has been found to be unable to lend more than £10,000,000 to £11,000,000 to the privileged firms on the approved list. But such has been the anxiety of the India Office to benefit the London money market with its surplus funds that several Banks—of high standing, of course—were approached by the Broker to accept the extra funds on deposit, without security.

In consequence of the decision of the Judicial Committee of the Privy Council in the matter of Sir Stuart Samuel's seat in Parliament, a note is now printed on application forms for loans stipulating that no Member of the House of Commons should be admitted to any share or part of any contract, agreement or commission or to any benefit to arise therefrom. The provisions of the above Statute do not, however, affect the contracts, etc., entered into by incorporated trading companies in their corporate capacity notwithstanding that such companies may in part be composed of, or be managed by, members of Parliament.

The India Office seem to have been very fortunate in their investments for there have been only two cases in which delay or difficulties in the recovery of money due were experienced. In one of these, there was some loss even, but by keeping the securities held for some time longer the loss was recovered from the difference between the higher rate of interest accrued on the securities and the lower rate of interest on which the advance (£50,000) by the India Office was made!

As an indication of the large amounts lent out of the general cash balances of the Secretary of State for India, I give below the maximum amounts held on loan or deposit by some firms and Banks on the approved list kept at the India Office during 1910-11:

Deposits with Banks without security.

	£
Glyn, Mills, Currie & Co.	1,550,000
London County and Westminister Bank	1,800,000
London Joint Stock Bank	1,500,000
National Provincial Bank of England	1,300,000
Union of London and Smith's Bank	1,250,000

Loans to private firms and Banks.

Union Discount Co. of London	1,150,000
National Discount Co.	1,100,000
Samuel Montagu & Co.	1,050,000
Wedd, Jefferson & Co.	750,000
Reeves, Whitburn & Co.	700,000
Alexanders & Co.	650,000
National Bank of India	550,150
Brightwen & Co.	500,000
Chartered Bank of India, Australia & China	500,000
Hohler & Co.	500,000
Sheppards & Co.	500,000
Roger Cunliffe, Sons & Co.	450,000
Lazard Bros. & Co.	250,000
Mercantile Bank of India	250,000
Ryder, Mills & Co.	250,000
Smith St. Aubyen & Co.	250,000
Baker Duncombe & Co.	200,000
Bristowe and Head	200,000
Anglo-Egyptian Bank	200,000
J. Ellis and Sons	200,000
King and Foa	200,000
Blydenstein & Co.	150,000
Booth & Partridge	150,000
Gillet Bros. & Co.	150,000
Haarbleicher and Schumann	150,000
National Bank of New Zealand	150,000
Steer, Lawford & Co.	150,000
Tomkinson, Brunton & Co.	150,000
Allen, Harvey & Ross	100,000
Biedermann & Co.	100,000
Eastern Bank	100,000
Laurie, Milbank & Co.	100,000
Lyon and Tucker	100,000

Loans to private firms and Banks.—concld.	£
Mathey Harrison & Co	100,000
L. Messel & Co.	100,000
Henry Sherwood & Co.	50,000

The following comments in connection with the above loans would, probably, be found interesting:

The most fortunate people, it will be noticed, appear to have been Messrs. Samuel Montagu & Co. They have apparently been the recipients of what amounts practically to standing loans that totalled in all about £2,000,000 (two millions sterling) per annum of India's spare cash for the last five years! It should be particularly noted that these are among the "short" or "temporary" loans which are granted at low rates of interest because they are only for short periods and may be recalled. These short periods have, by repeated fresh loans, now extended through at least five years *—possibly more.—Mr. M. De P. Webb, *Advance India*, (1913) page 65-66.

Unfortunately the head of this firm (viz., Messrs. Samuel Montagu & Co.) was closely related by blood to the Parliamentary Under-Secretary of State—Professor Keynes, *Indian Currency and Finance*, page 142.

A Fortunate Broker.

The figure that emerges most triumphant and lucky out of all this controversy is that of Mr. Horace H. Scott, prince of Brokers and the official Broker at the India Office. The Right Hon'ble the Secretary of State, who has been a target for considerable criticism in the matter of investments is forced—notwithstanding that he is a Peer of the Realm—to content himself with a salary of only £5,000 a year, because, forsooth, this is the maximum amount fixed for His Lordship by the laws of England. But Mr. Scott has not only been immune from such botheration and responsibilities, but has been quietly pocketing nearly twice His Lordship's salary as the following statement would show:

Broker's Commission.	£
1905–06	14,213
1906–07	10,727
1907–08	7,119
1908–09	4,603
1909–10	7,296
1910–11	16,376
1911–12	9,980
1912–13	7,961

* Average rate of interest earned on loans given to the approved Borrowers: 1910, 2.84 %; 1911, 2.46 %; 1912, 3.16 %; 1913, (January to May) 3.97 % per annum.

The Broker's remuneration for his work has, since 1888, been a percentage on interest earned. Until 1st July 1911, the commission was 5 per cent on interest earned on loans on security and one per cent on interest on deposits (without security) placed with Banks. The terms were reconsidered by the Secretary of State in Council in 1911 and a new arrangement has been made by which 2½ per cent on interest earned on loans on security is paid up to a maximum of £5,000 in any financial year, and 1¼ % thereafter; and one per cent on interest on deposits with Banks is paid to him. In the Gold Standard and Paper Currency Reserves, 1-16th per cent on sales and purchases of Registered securities; on purchases and sales of short-dated bearer securities: 1/32 per cent on those maturing within one year, 1/16 per cent on those maturing in 2 to 3 years and ⅛th. per cent on those maturing after three years. From 1st July, 1911, the total commission to be paid to the broker on purchases and sales of securities in any financial year is not to exceed £1,500.

"It was slightly shocking to discover"—says Professor Keynes—"that the Government Broker, who is "not even a whole time officer, and has a separate business "of his own besides his official duties, is the highest paid "official of the Government with the sole exception of the "Viceroy. He has probably been paid too high even on "current city standards."

The total amount paid to the broker by the India Office up to 31st March, 1913, comes to the respectable figure of Rs. 18,48,135 (£123,209).

The Presidency Banks in India.

In order to put forward the case on behalf of the Presidency Banks in India in true light, it is necessary to first mention the extent of assistance given by the Secretary of State for India to the Bank of England in return for the services rendered to him by that corporation. It should be understood that whereas in India, the help

which the Presidency Banks receive from the Government constitutes in a large measure the sum total of official patronage extended to them, in England the assistance given by the Secretary of State—substantial as it is—is but a small portion of the total patronage and help received by the Bank of England from His Majesty's Government.

It appears, then, that an understanding exists between the Secretary of State and the Bank of England that in order to remunerate the Bank for services for which no direct charge is made, such as the work done in connection with the sale of Council Bills and Telegraphic Transfers, the closing balance of each day shall not be less than £500,000 (75 lakhs of rupees). As a matter of fact, the balances with the Bank of England have been far in excess of this sum as the following table of balances on the last day of each month during the year 1912-13 will show :

Cash Balances with the Bank of England on :

	£		£
31-3-1912	1,351,692		
30-4-1912	734,199	31-10-1912	574,166
30-5-1912	660,583	31-11-1912	754,656
30-6-1912	2,295,474	31-12-1912	1,800,259
31-7-1912	594,123	31- 1-1913	648,527
31-8-1912	662,593	28- 2-1913	600,508
30-9-1912	1,889,592	31- 3-1913	1,095,852

The keeping of such heavy balances of money free of interest has been supplemented by the sum of no less than about Ten Lakhs of Rupees paid every year to the Bank of England on account of remuneration for services rendered in connection with the management and issue of public debt, etc. Full details of payments made to the Bank of England and the Bank of Ireland, during 1912-13, with rates of remunerations fixed for various kinds of services are given below :

Bank of England.

Re Management of Public Debt.

	£
Remuneration for the management of India Stocks at £300 per million (total value £163,601,076) *	48,672
Remuneration for the issue of India Stocks, at £1,250 per million	3,750
Remuneration for management of India Bonds at £100 per million	350
Remuneration for issue of India Bonds is paid at £1,250 per million. There was no issue of this loan during 1912-13	
Remuneration for issue of India sterling Bills is paid at £200 per million. No issue during 1912-13.	
Remuneration for the management of India Railway Debenture Stocks, at £300 per million ..	1,473
Remuneration for the management of Rupee Debt †	8,000
Fee for assessment of Indian Income Tax at *2d.* per Rs. 10 deducted	90
Remuneration for conversion of 3 per cent Rupee loan at £500 per ten million rupees ‡	28
Re Purchase of Silver.	
A commission of ⅛th per cent is paid on first £2,000,000 ordered to be purchased in a financial year. Then ⅛th per cent for commission and brokerage	2,50[illegible]
Re Currency Chest.	
A charge of 1/32nd per cent per annum is paid for custody of Gold on account of the Paper Currency Reserve	1,711
Total ..	66,574

(=about Rs. 10,00,000).

* The cost of the management of a new loan commences from the date of the last instalmen

† The rate is £400 per ten million rupees subject to a minimum charge of £8,000.

‡ An extra charge of £150 was paid in 1910-11 for preparation and issue of new coupon sheets of Rupee Loan of 1854-55.

This was by no means an abnormal year. Total payments in each of the preceding five years were as follows: 1907-08,-£61,489; 1908-09,-£60,842; 1909-10,-£65,166; 1910-11,-£72,767; 1911-12,-£64,539.

Bank of Ireland.

Remuneration for the management of public debt at £360 per million on £6,246,616 .. .. £2,249

(or, Rs. 33,735.)

Payments during the preceding five years:

1907-08,-£1,900; 1908-09,-£2,026; 1909-10,-£2,091; 1910-11,-£2,162; 1911-12,-£2,223.

Commenting on the exorbitant scales on which the remunerations of men—and I may add institutions—of the City of London are based, Professor Keynes rightly observes: "It suggests once again the old question how "long it will be found necessary to pay City men so en- "tirely out of proportion to what other servants of society "commonly receive for performing social services not less "useful or difficult."

Now, look at the other side of the picture. The agreements between the Government of India and the Presidency Banks in India in respect of the holding of balances provide that the Banks are to transact general business for the Government at their Head Offices and certain branches * in return for which they receive specified remuneration; the Government of India is not bound to retain at the Banks any particular sum; but, if its balances at the Head Office of any of the three Banks fall on any day below the figures given, they are to pay to the Bank interest at the lowest rate chargeable on such day by the said Bank to the public for loans recoverable on demand. †

* The number of branches of the Presidency Banks where they act as Bankers to the Government and charges for transaction of business whereat are included in the remunerations fixed were (excluding the three Head Offices) 35 in 1913.

† On the floatation of a loan, and in special cases, the amounts are increased.

Name of Bank.	Remuneration per annum.	Amount of Balance below which interest becomes payable.
	Rs.	Rs.
Bank of Bengal .	.. 43,500	35,00,000
Bank of Bombay.	.. 12,000	18,00,000
Bank of Madras..	.. 12,000	20,00,000

When a new branch is opened by any Presidency Bank, the Government, as an encouragement, sometimes guarantee to keep a certain minimum balance at that branch for a number of years.

Like the Bank of England, the Bank of Bengal also manages the Public Debt in India. At its branches it does all the banking work (usually done by the district treasuries) for the Government and all this within the aforesaid remuneration, which pales into insignificance when compared with the princely terms allowed to the Bank of England.

In justice to the Government, it may be said that in actual practice the balances kept with the Presidency Banks are much higher than the minimum provided in the agreements.

It apprears from the evidence given by Mr. Lionel Abrahams before the Royal Commission on Indian Finance and Currency that the actual amounts usually left with the Presidency Banks at their Head Offices are :—

Bank of Bengal	70 to 80 lakhs.
Bank of Bombay	40 to 50 lakhs.
Bank of Madras	20 lakhs.

The Government deposits in branch offices are extra. There is no limit fixed in respect of such deposits, but they are held absolutely at call and are, in actual practice, removed with the utmost freedom.

There is a history connected with these balances Under Acts of the Governor-General Nos. VI of 1839

III of 1840 and IX of 1843, the Presidency Bank of Bengal, Bombay and Madras enjoyed rights to issue Currency Notes payable to bearer on demand. These Acts were repealed in 1861, when the Government of India established a State-managed Paper Currency, and as a compensation for loss of their note circulation, Government agreed to keep with the said Banks certain minimum balances without charging interest. *

The average proportion of total Government deposits with the Presidency Banks to their Capital and Reserve, and to their Cash balances, is, approximately, as under :—

Year.	Bank of Bengal.		Bank of Bombay.		Bank of Madras.	
	% (A)	(B)	% (A)	(B)	% (A)	(B)
1890	81	66	72	62	77	49
1891	85	42	69	29	74	34
1892	71	50	73	47	77	38
1910	50	29	70	34	58	32
1911	55	30	65	29	62	55
1912	50	26	69	31	61	39

(A) Percentage of Government Deposits to Capital and Reserve.

(B) Percentage of Government Deposits to Cash and Currency Notes.

The Capital and Reserve of the Presidency Banks now stand as under :—

	Rs.
Bank of Bengal	3,83,00,000
Bank of Bombay	2,06,00,000
Bank of Madras	1,45,00,000

It would appear that the proportion of Government deposits to (1) capital and reserves and (2) the cash balances of the Presidency Banks have not increased *pari passu* with the expansion in the resources of the Banks. The

* It may be mentioned that the Bank of England, too, does not allow any interest on the Indian Government Funds kept with it.

assistance granted by the Government to these institutions is, in the opinion of many financial experts, far from adequate, and is much too less than the patronage extended to the Bank of England by His Majesty's Government.

At times of stringency in the money market the Government have, no doubt, extended a helping hand by making temporary loans to the Presidency Banks. The cases of such loans on record are :—

To Bank of Bengal.	40 lakhs in 1901.
	20 lakhs in 1901.
	25 lakhs in 1905.
	30 lakhs in 1906.
	25 lakhs in 1906.
To Bank of Bombay.	25 lakhs in 1902.

The rates of interest charged on these loans were the usual Bank rates for demand loans current when the advances were given. But such help is not sufficient and there is a general consensus of opinion that the time is now ripe when the Government ought to give a substantial assistance to the Indian money market by placing much larger sums than it has hitherto done with the three Presidency Banks and extending the privilege of the use of some portion of its vast surpluses to other Banks of high standing in India and to first class private firms and institutions as well.

The Problem of Problems.

The culminating point of the whole issue is that owing to a variety of circumstances, the chief of which are :

(1) artificial enhancement of the value of the Rupee;

(2) marvellous expansion of the use of paper currency ;

(3) increased taxation, or, over-borrowing ; or both, and ;

(4) extension of the habits of thrift and frugality among the people and the growth of their confidence in the stability of the Govern-

ment leading to their depositing over 20 crores of their savings in trust with the Government Post Offices,

the Government of India have accumulated a huge reservoir of funds which on 31st March, 1913 stood at the high figure of Rs. 1,46,39,80,015. *

Of the portion thereof held in England, ¾th the amount has been placed at the service of the London money market, whilst of the 90 crores held in India, only 10 crores are invested in Government of India rupee securities and the rest is—as it were—a close preserve of the Government, to the use of which,—no matter whatsoever the stringency of money in the market and howsoever disastrous its results to the trade and commerce of the country,—the Indian people may not aspire.

The second grievance is that large sums of India's funds have, for one reason or another, been transferred from India to England, the underlying principle being to prevent, or as far as possible diminish, the import of Gold into India evidently for the fear that since the Gold Reserves of London are already very slender, any substantial withdrawal of the precious metal would not but cause a "serious disturbance to the greatest money market of the world."

	Rs.
* **HELD IN INDIA.**	
CASH BALANCES	28,94,44,000
GOLD STANDARD RESERVE	6,00,00,000
PAPER CURRENCY RESERVE.	
Silver	16,45,27,496
Gold.	29,37,50,798
Securities	9,99,99,946
	90,77,22,240
HELD IN LONDON.	
CASH BALANCES.	
Invested in the market	12,97,50,000
At the Bank of England	1,64,37,780
GOLD STANDARD RESERVE.	
Invested in securities	23,91,85,035
Invested subject to recall at short notice	1,50,84,960
In deposit at the Bank of England	2,43,00,000
PAPER CURRENCY RESERVE.	
Gold at the Bank of England	9,15,00,000
Securities	4,00,00,000
	55,62,57,775
Grand Total	1,46,39,80,015

It will appear from the table of India's export and import trade given in Chapter IV that during the twelve years, from 1900-01 to 1911-12, the balance of trade was in India's favour to the extent, altogether, of £492,250,000 and it is quite natural for the Indians to expect that after deducting nearly £225,000,000 which became due to England on account of Home Charges during these twelve years, India ought to have received 267¼ millions of pounds sterling worth Gold.

It was Locke who said : "If exportation will not balance "importation, away must your silver go again, whether "moneyed or not moneyed ; for where goods do not, "silver must pay for the commodities you spend." Since Gold is the modern international measure of money (instead of Silver) it is no sin to expect that if England cannot pay in full in kind for all the merchandise she receives from India, the balance ought to be satisfied in Gold. But out of 267¼ millions sterling due to India, it appears that she was allowed to import only 135½ millions worth Gold and 59 millions worth Silver during these 12 years, and out of these sums, again, large quantities of Gold having passed into possession of the Government are held up in the Reserve Treasuries. Indeed, the net absorption of gold coins by the public during 12 years is, altogether, 51 millions sterling only. Various means seem to have been adopted to counteract the effects of the favourable balance of trade to India and to obstruct the free importation of Gold into the country, the most potent being the use of the trade balances as a means for withdrawing India's Gold and Paper Currency Reserves with a view to invest or hold them in London.

Looking through the long chapter of the currency history of India one cannot help feeling that the Government of India have, often, come forward to champion India's cause in a true fatherly spirit before theCouncil of the Secretary of State, but the odds have been so heavy against

them that India's grievances in this matter have not, yet, been redressed.

The demands of the people of India in matters pertaining to currency and the disposition of the various financial reserves of India are quite clear. They have been voiced by her representatives, on many occasions, in the Imperial Legislative Council and have formed subject of repeated representations by the Chambers of Commerce in India. References have been made to the existence and trend of public feeling in respect thereof in the addresses presented to successive Viceroys of India and in conversaziones held between representatives of the Indian trade and finance and heads of the different departments of Administration. They may be summarised here as follows :—

(1)—That it is no part of the business of a Government to keep enormously heavy general cash balances in hand such as would necessitate a constant and year-to-year investment of 10 to 15 crores of rupees in a foreign money market. No other Government in the world does so. "In Great Britain the Chancellor of the Exchequer, "with annual liabilities far exceeding those of the Govern-"ment of India, manages to carry on the financial busi-"ness of Government with a very much smaller balance "of cash in the till than that employed in the case of India.*"

It is desirable to invest the surplus cash balances of the Government in capital expenditure on reproductive works, like irrigation and railways in India, or in re-payment of loan, or in suspending fresh borrowings for some time.

(2)—That the Gold Reserve of India ought to be mainly kept within the country in actual Gold. It is inadvisable to lock-up the Gold Reserve in securities for the

* Great Britain's cash balance on 31st March, 1913, was £6,329,160.—*Advance India* by Mr. M. De P. Webb (Page 105).

sake of earning interests. The system of loaning out the emergency reserves of one country to the Government of another country, besides being wrong in principle, is not without a serious element of danger in that the best gilt-edged securities are liable to become unsaleable in times of financial crisis or of political complications. If, however, the retention of some portion of the Gold Reserve in England be considered necessary, the limit of such retention may be fixed, say, at ten crores of rupees maximum. In times of unfavourable exchange, when the Secretary of State cannot sell his Council Bills on India, it would be quite easy to ship Gold from India, and would, in fact, be much cheaper.

In 1907-08 and 1908-09, when the balance of trade became temporarily adverse to India, the Secretary of State had to find 9 millions of pounds by the sales of securities, out of which, however, over 3 millions worth British Treasury Bills had matured during that year and were discharged at full face value resulting in a profit of about £50,000 over cost price. The sale of the remainder 6 millions worth securities was effected at a loss of nearly 30 lakhs of rupees.* Had this sum been remitted from India the total expenditure on sea freight and insurance thereon would not, I fancy, have exceeded 4 lakhs of rupees in all.

Further, in order to avoid chances of the Gold Reserve being put to wrongful use, its composition, magnitude, location and disposition may be determined by legislative enactment.

(3)—That the policy in respect of the investment of a portion of the Paper Currency Reserve ought to be governed by the consideration that the utilisation of those funds in the purchase of Government of India paper would

* After the absorption of about £50,000 earned as profit, the net loss to the Gold Standard Reserve Fund was of £146,852 only.

enhance the value of, and improve the market for, that paper and react in benefit to the general body of tax-payers.*

Further, that in times of stringency in the money market when the rate of interest in the Presidency Banks exceeds, say, six per cent, and thus indicates accute shortage of funds, the Paper Currency Reserve ought to be freely placed at the disposal of the Indian money market, under suitable conditions as to security and repayment, through the medium of all respectable Banks and business houses in India. All this will help to further popularise the Paper Currency and expand the volume of its circulation.

(4)—That the repeated pledges given by the Government of India and the Secretary of State for India for the introduction of a genuine Gold Currency be now redeemed and in response to the general wishes of the people and in order to provide a self-acting process—unhampered by official control and interference—for the expansion of currency, when required, the Indian Mints be thrown open to the unrestricted coinage of standard gold coins.

(5)—That the sale of Council Bills and Transfers by the Secretary of State be placed under definite regulations so as to ensure the realisation of the highest possible price, consistent with the ascendant position of the Government in the matter of its token silver currency; and that, as a general rule, the drawings ought not to exceed the actual requirements of money in England for meeting the Home Charges; the general cash balances in England may be so reduced as to maintain only a reasonable minimum working balance, of say, £4,000,000 as required according to the

* In England every one, from the Chancellor of the Exchequer down to the humble banker and financier, is seriously concerned about the steps to be taken to make British Consols popular. At present that is the principal topic in England. We, in India, export our available capital to London and starve our banking institutions to the detriment of the popularity of our own paper. If means can be adopted by which we can prevent the enormous rise of the rate of interest, in the busy season, I am sure—and that is the opinion of many bankers—that the price of Government paper would stand at a much higher figure than now.

—Extract from a speech of Sir Vithaldass Thackersey in the Imperial Legislative Council 22-3-1912.

India Office own estimates of normal requirements*. The sale of Council drafts may moreover be popularised by including the treasuries of Delhi, Amritsar, Karachi and Cawnpore for payment of bills and transfers issued from England.

The people of India further feel that the top-heaviness in the structure of the financial administration of India ought to be remedied. The Government of India ought to be more free in the disposition of its reserves and balances and the constant interference and check of the India Office may be so modified as to allow fair liberty of action to the Government in Delhi. Following up the argument advanced by Professor Keynes that owing to absence of knowledge and experience, the tendency of power in financial matters is to gravitate from Simla to London, it is desirable that some means for special training in finance may be devised for officers whose careers are intended to be spent in the financial department of Provincial or Imperial Governments. Specialisation in finance is as much necessary—for carrying on the administration of a country successfully and economically and steering it clear of the scylla of fall of revenue in bad years and the charybdis of over-taxation—as in any other branch of industry or science.

As a corollary to this proposal, more and freer opportunities may be given to the Indians to associate themselves in the financial administration of the country and they ought to be appointed on a larger scale, to highest and responsible positions in the Finance Department of the Government of India. That Indians of suitable calibre can be found few will now doubt. Indians have filled with credit and distinction any post to which the Government have been pleased to appoint them, no matter how exalted the office or how intricate and diverse the nature of duties entrusted to them. They have undergone and success-

* In his evidence before the Royal Commission on Finance and Currency, Mr. Lionel Abrahams, representative of the Secretary of State for India, stated that the amount of cash balances required in England in ordinary circumstances is about £4,000,000.

fully stood the test of intelligence, the test of ability, the test of administrative capacity and grit, the faculty of initiative and capacity to grasp difficult questions and problems of administration and to preserve presence of mind in moments of trial and danger. The plea of incapability or unsuitability—or of want of character and integrity—cannot, in fairness, be now advanced against them. His Majesty's Government at Home and His Majesty's Viceroy in India have, already, inaugurated an era of co-operation with the people and have taken them into confidence in the most serious and important matters of Imperial administration. What is now required to satisfy the growing hunger for an increased share of participation in the Government of the country is to extend the beneficial policy to newer and wider spheres of higher administration. This is the only way to keep people contented and strengthen the bonds of affection and feelings of loyalty and devotion in the hearts of the people.

The credit and distinction with which Indians have filled the highest offices in the Native States of India may well be cited as illustrative of the truth of this statement. There are very few opportunities for the cultivation and exercise of a similar talent in British India and that is one reason why sons of the soil cannot shine so well in the British Indian administration as they do in the Native States where alone positions of trust, in which powers of initiation and the faculties of grappling with actual problems of life find play, are freely vouchsafed to them ; and, there Indians acquit themselves in most excellent ways. Eminent men like Sir Sheshyadri Iyer would have died unknown to fame, and with all their talents buried in the core of their heart, had there been no Native States in India to afford opportunities for display thereof. Indians rightly urge that opportunities similar to what they get in the Native States should be afforded to them more freely in British India and positions of trust and responsibility, both in executive and administrative branches of the Government, be generously thrown open to them.

As a further means of looking after India's financial interests and expressing the Indian point of view to the Secretary of State for India in Council, Mr. Webb recommended to the Royal Commission on "Indian Finance and Currency."

With the object of adapting the financial organisation of the India Office more closely to present-day requirements, I would suggest that the Finance Committee of the Secretary of State for India's Council should always include one senior Civilian Officer of at least twenty years' service in India and some experience of Indian financial matters; one Anglo-Indian banker of Calcutta or Bombay experience, and one (and only one) leading London banker.

The crux of the whole problem is that the growth of knowledge and culture among the people has been accompanied by a development of consciousness in all spheres of social and economic activity. People now feel, as they never did before, any injustice done to them and resent measures, which, knowingly or unknowingly, deal a blow to their sense of self-respect and national integrity. They desire that in matters of finance and currency, as elsewhere, and in the disposition of India's Reserve Funds and Cash Balances, the securing of maximum amount of direct benefit to the people of the country ought to be the guiding principle; and that their wishes and sentiments may be fully consulted and the removal of their own financial hardships ought to form the primary consideration. They fervently hope that the Government of India and His Imperial Majesty's Secretary of State for India will be graciously pleased to bestow greater regard to the people's wants and feelings in solving India's financial and currency problems and thus diffuse contentment and bind them tighter in bonds of devotion and loyalty to their Emperor.

APPENDIX A.

Memorandum, dated 15th May, 1872, written by Sir Richard Temple, Bart., G.C.S.I., C.I.E., (then Finance Member of the Imperial Council; latterly he served as a Governor in India) on the subject of the Establishment of a Gold Standard and Gold Currency in India :—

I desire to lay before the Government of India three notes by Mr. G. Dickson, Secretary to Bank of Bengal, on the subject of the gold currency, which he was good enough to draw up at my request; also notes by Mr. R. B. Chapman, the Financial Secretary, and Mr. H. D. Sandeman, Officiating Comptroller General, and Mr. E. Gay, Deputy Comptroller General, on the same subject.

2. I have long believed that a gold currency is wanted in India; that its introduction ought to be an object for gradual, if not immediate, attainment; and that the British Government ought to adopt measures from time to time towards that end. I do not say the introduction of a gold coinage, for we have that already in India. We have gold pieces representing fifteen, ten, and five rupees respectively; and believed to represent these several sums very correctly, as regards the relative value of gold and silver. That this relative value has by these gold pieces been preserved with as much accuracy as possible under the circumstances was affirmed by the report of the Indian Currency Commissioners in 1867. But, despite their intrinsic merits, these coins are not and cannot be available as currency, because they are not legal tender. I conceive that we should, so far as we fairly can, permit inducements to arise for the importation of gold into India, and for its retention in considerable quantities in the country; that whenever such quantity might be found adequate, we should take the first opportunity to declare the gold coins legal tender to unlimited amount; that the gold pieces should continue to bear the fixed relation to the rupee; that for a time it might be necessary to permit the rupee to remain legal tender to an unlimited amount, which would involve temporarily the difficulty of double standard; that the transition period of double standard should be as short as possible, silver being reduced to a token coinage, and being legal tender up to a small amount only; and that gold should be ultimately the one legal standard.

3. Remembering that many steps must be taken before any such consummation could be arrived at, I should have preferred, just now, to confine myself to such practical measures as could be adopted at present. But, among the many doubts which surround the subject, I see, or imagine that I see, one doubt which affects the very root of the matter. It seems to be doubted whe-

ther a gold currency is needed at all for India, or whether it constitutes a requirement of that pressing or important character which would justify any alteration in so delicate an affair as the currency.

4. I do not at all share such doubt. On the contrary, I share the conviction expressed by my predecessors Mr. S. Laing and Sir C. Trevelyan and Mr. Massey, to the effect that a gold currency is among the urgent wants of India. With the exception of Mr. Wilson, every Financial Member of the Government of India has advocated this view. In 1866 similar views were advocated by a special Commission in India appointed to examine the whole subject, and have been maintained at one time or other by every chamber of commerce in India. But in the event of such doubt as above described being seriously entertained, I will attempt to briefly recapitulate the reasons why a gold currency is desirable in India. And my excuse for making the attempt must be this. If people shall strongly entertain an *a priori* conviction that a gold currency is really wanted, then they will find that the supposed difficulties in the way of its introduction are not at all insuperable. If, on the other hand, they have no such conviction, then the difficulties, which more or less beset every question of currency, become magnified to undue proportions.

5. It can hardly be necessary to recall to mind the superiority of gold over silver, or the reasons why in all countries the estimation of gold is about fifteen times greater than that of silver. A well-known writer on bullion has summarised the advantages of gold thus :—

"Gold is the noblest of all metals—*the king of the metals*, as the alchemists "of old used to call it. It holds this exalted rank by virtue of its precious "physical and chemical properties, among which may be mentioned, more "specially, its indestructibility; its signal power of resisting oxidising influences; "its fusibility; its permanent ductility and malleability; its beautiful colour "and splendid lustre."—*Seyd*—"Bullion and Foreign Exchanges."

6. It is this superior estimation which, causing gold to be so much more relatively portable than any other precious metal, gives it a practical efficiency in commercial transactions, of which inherent quality nothing save artificial restraints, from systems of currency, can deprive it.

7. The most advanced nations, England, France, Italy, America, Germany, Holland, possess a gold currency. Most of them have at various times adopted measures to change the currency of silver to gold. Some of them have even put forth efforts and undergone sacrifices for this object. *

8. It is generally acknowledged by the best authorities that the money, which is to be the medium of exchange and the measure of value in large transactions, or in all save small transactions, should be gold, as being the metal

* Many more nations have, since this report was written, adopted a gold currency. Even Japan, which was long considered as the fortress of silver, has now adopted gold. India is the only unfortunate country which is yet deprived of the benefits of a reformed and modern currency by her civilised British Government.

most suited for such purposes from its greatly superior estimation. Silver is suited only for transactions too small for the use of gold; just as copper is suited only for transactions too small for the use of silver.

9. In the first place Adam Simth explains that—"In the progress of "industry commercial nations have found it convenient to coin several differ- "ent metals into money; gold for larger payments, silver for purchases of "moderate value, and copper or some other coarse metal for those of still "smaller consideration."

10. Michel Chevalier gives a similar explanation:—"We know that "for many centuries copper constituted the money of Rome. Afterwards, "society having become richer, copper money was no longer sufficient; with "the increase of wealth, payments became too cumbrous, and a more valu- "able metal than copper was found better adapted for the bulk of transactions; "it was thus that silver money came into use. This was soon after followed at "Rome, and for the same reason, by a gold currency. The history of the cur- "rency in the monarchies which were reared upon the ruins of the Roman "Empire reveals the same process." The same authority goes on to say of gold and silver—"a division of their employment seems to be indicated; for "silver the smaller, for gold the larger, payments."

11. M'Culloch, speaking of gold and silver, says that "the former would "be sure to be preferred as money to the latter in all but petty transactions, " . . . . The use of gold as money is accompanied by so many "advantages that it would maintain its place even though it were somewhat "underrated as compared with silver. Inasmuch, however, as gold has so "many natural grounds of preference on its side, the true plan is to make "it the only standard."

12. Tooke, after rejecting *seriatim* the arguments for a change from a gold to a silver standard, says that "in other respects it would be the sub- "stitution of the less convenient for the most convenient description of currency."

13. Chambers writes in his chapter on money—"A substance has been "employed as the chief circulating medium over the civilized world. Its own "nature has made it the standard currency, though it is relieved and aided "by other kinds of currency. This substance is gold, which by common "consent people at the utmost extremities of the civilised world have used as "their standard currency."

14. One of the main reasons for the preference of gold over silver is forcibly expressed by another writer (Henry Dunning Macleod): "The greater "the intrinsic value of the metal, the better is it qualified to perform the "functions of a currency. . . . . The more "rare and valuable the metal, the more portable and convenient would it be, "so that a man might carry about with him, as it were, a concentrated essence "of power of commanding services."

As John Stuart Mill observes :—

'There is an obvious convenience in making use of the more costly metal "for larger payments, and the cheaper one for smaller; and the only question "relates to the mode in which this can best be done."

15. Even some of those authorities, for example, Ricardo and James Wilson, who prefer silver as the sole standard, make important admissions in favour of gold. Ricardo states that—"In favour of gold it may be said that "its greater value under a smaller bulk eminently qualifies it for the standard "in an opulent country."

James Wilson says :—"No one will be inclined to deny that, if we had to "begin a system of currency *de novo*, the most convenient of all the various "systems now in practice would be found to be that used in England, where "gold is the standard, and silver tokens of limited tender the subordinate "coins."

16. Now, these considerations of political economy are just as applicable to India as to any other civilised country. It will hardly be denied that India *is* a civilised country. Although civilization in a politico-economic sense is not so diffused in India as in Europe; though the mass of the people are less civilized than the corresponding classes of an European people, still India has a fair proportion of civilisation, has a large field for the exercise of political economy; all which, though inconsiderable relative to the vastness of the country, is considerable absolutely. Though on the whole a poor country, certainly, still India is in parts rich enough, has within particular limits great wealth, has extensive transactions, has in some respects much to do with money on a great scale.

17. It is no sufficient answer to this to say that the mass of the people never see anything better than copper money; that it is only certain classes that see even silver; and that but a comparatively limited number would see a gold currency if it existed. For the limited number who would see gold represent the most important classes of the country, just those classes whose skill, enterprise, and intelligence go far to make the fortune of the nation. If the sections of the people who would use gold were summed up, they would be found to represent a great and growing interest. And if they really require a gold currency, that would be a strong reason for introducing it.

18. Again, if it be supposed that such currency were not so urgently wanted for the interior of the country generally, still the question would remain as to whether it is wanted for the larger transactions of the inland trade and especially for the foreign trade. It is not so easy to gauge the inland or interportal trade. But we know the extent of the foreign trade exactly, and we can see what a mighty interest that represents.

19. But the number of persons in all India who would use a gold currency is not so limited as seems to be supposed. It may be mentally measured in

this way. With our five-rupee gold piece legal tender, everyone who had to pay five rupees or more in metallic currency (unless he paid in currency notes) would pay in gold. Everyone who kept or hoarded five rupees and upwards in treasure would use gold. Let us compute by our own notions (we cannot ascertain exactly) what the number must be of payments of five rupees and upwards in all India within any year. Surely it must be very great. Quite great enough to justify the consideration of measures for introducing a gold currency.

20. Or let us suppose that, following the example of the five-franc gold coinage, or, forming the easily conceivable notion of a five-shilling gold piece, we were to have gold coins of lesser denomination than five rupees (for which the authority of M'Culloch might be cited)—say, for example, that we were to have 2½-rupee gold pieces. Then every payment of metallic currency of 2½ rupees and upwards would be made in gold, if there were a gold currency.

21. How very great, then, must the number be of such payments in a year?

22. But in these, as in other matters, there is such a thing as national prejudice. It is conceivable that such a population as the Indian might have some national prejudice against gold. But have they, in fact, any such prejudice against gold pieces? No, they have not. Quite the contrary; their prejudice, if they have any, is entirely in favour of gold. The imperial dynasties which preceded us in India had a gold currency. Some comparatively ancient gold coins have still a limited circulation, and enjoy the highest repute. It is remarkable that the gold coins which issue from the British Mints in India mostly find their way to Native States. It may be said, in general terms, that on our accession to power in India we found a gold currency existing conjointly with the silver currency. And it was reserved for us to accord silver the dominant and exclusive position which it now holds in the currency. My own belief is, that few nations have in their own minds a higher appreciation of gold than the Natives of India.

23. It was in 1835 that silver was made the sole legal tender in India. Gold, however, ceasing to be a legal tender, was still receivable at the Treasuries in payment of Government dues. Even this was stopped in 1853. The prohibition was withdrawn in 1869, since which time the gold pieces have been and are receivable at the Treasury as before.

24. This measure, however sound in principle, has not proved efficacious. Indeed the state of the exchanges prevailing since that time, has not been such as to cause the importation of gold bullion. And indeed nothing can bring about a permanent influx of gold, while gold pieces are not legal tender.

25. Upon this point M'Culloch writes thus:—

"Silver has become in India, in fact as well as in law, the sole legal tender; " . . . . there are at the same time various circumstances "which make it much to be regretted that an attempt should have been made

"to exclude gold from the currency of India; . . . had gold "been allowed to circulate as coin, it would have been extensively employed in "making large payments, and it would also have been extensively hoarded. " . . . It would be good policy to reintroduce a gold currency."

26. M'Culloch further makes a remark which I shall cite in this place. After explaining that gold would, if it had a fair chance, circulate in India as well as silver, he goes on to say—"In that case the increased demand for gold " . . . would, by lessening the demand for silver, have "checked any tendency it may have had to rise." Sir William Mansfield (now Lord Sandhurst) elaborated this same point in 1864. He estimated that the exclusion of gold from the currency caused a rise of 5 per cent. in the price of silver, and held that this led to injustice towards the landholding classes of India, who pay land revenue fixed for long periods or in perpetuity.

27. Whether we go to the full length of these conclusions or not, still we can hardly doubt that to virtually oblige the people of India (as we indeed do oblige them by our present system) to use only one precious metal for currency, when they might have had two precious metals, is to enhance the price of that one precious metal, silver, and thereby to put them to considerable expense unecessarily. They must have the silver for currency use, and they must purchase it with their produce. If the price be enhanced, say, by even a small percentage, then let the significance of that be considered. The amount of silver in circulation cannot, of course, be stated, but it must evidently be very great; supposed to be at least 100 millions sterling in value, sometimes even estimated at 150 millions. The amount, whatever it may be, has been purchased by the people of India. Then, even a small percentage on either sum would give an extra expense of several millions, to which the people have been unnecessarily put. Such an estimate is not precise indeed, but it may serve to give some idea of the possible loss occasioned to India.

28. Again, to use gold instead of silver coins is to effect a great saving in minting charges and in wear and tear; or, per contra, to oblige the people to use silver coins when they might use gold is to put them to the expense of about fifteen times as much minting and wear and tear of coinage as might otherwise have been necessary. This cost may be relatively small, from 1 to 2 per cent. on value of coins; still let us remember the amount of silver coined in India since 1835, about 197 millions, and we shall see that even a small percentage on this vast sum would be an appreciable amount. It follows that this amount might have been to a large extent saved to the country had there been a gold currency. Sir W. Mansfield summarises the advantages of gold as—

"1st, superior portability;

"2nd, decrease of wastage;

"3rd, economy in mintage;"

and he describes these as "elements of cheapness which have a marked effect "in asserting the superiority of gold."

29. It is often said, in effect, that the certainty of silver always being largely employed as currency in a comparatively poor country like India is a reason why a gold currency is not wanted. But I contend, on the contrary, that this very circumstance is one of the reasons why a gold currency is wanted, because it tends to steady the price of that silver which is one of the necessaries of the national life.

30. On the whole, it seems clear that, while in all other branches and departments of administration we endeavour to give to India the best of everything, so far as we can, yet in respect of metallic currency we deliberately withhold from her the first-rate article and afford her a second-rate one.

31. The foregoing considerations apply to India in common with other countries where there may be commerce and accumulated wealth. But there are special reasons in India why a silver currency without any gold currency must be inconvenient. In other words, there are, in addition to the general reasons, special reasons why India ought to have a gold currency.

32. The continent of Europe, and especially the United Kingdom, obtain both gold and silver from about the same distance in the case of each metal. Those countries have commercial relations with gold and silver-producing regions. Gold comes direct from America, so does silver.

33. With India the case is different. She has but slight commercial relations with America. And consequently she has to obtain silver through the medium of England. This is to some extent a disadvantage, and must involve various charges, direct and indirect. She has also to obtain the silver, in which her currency solely consists, from an immense distance.

34. On the other hand, she could obtain gold from Australia direct, without employing any other country as a medium, and from a much shorter distance. Thus it would appear that from its situation Australia, with its gold-producing regions, is the natural source of supply of the precious metal to India. It is the present system of the metallic currency that prevents India from availing herself of the great natural advantage offered by Australia in this respect, and forces her to obtain her specie under comparatively disadvantageous circumstances.*

35. As Colonel Smith, the Mint Master, has well expressed it:—

"The advantages of introducing gold into the currency of our vast de-"pendency need not be here insisted upon. They may be inferred from the "unanimous wish of the inhabitants for a less cumbrous means of exchange, "from the benefit to be derived by the whole civilised world from India's "taking her share of the increased produce of the gold mines, and from the "anomalous spectacle exhibited for many years past, of ships freighted with "gold traversing half the globe in one direction, crossing ships conveying an

* The Indian gold mines were not discovered then. These mines now produce about 3 crores of rupees worth refined gold every year.

"equal value of silver in the opposite direction, for the adjustment of balance "of trade capable of settlement without either voyage, and with a saving of "expense of a quarter of a million sterling annually." *

36. Sir William Mansfield (now Lord Sandhurst) put the case thus :—

"There can be no good reason to compel the precious metals to make the "journey from Australia round by London to India, instead of coming direct "to the latter country. Yet that is what to a certain extent necessarily takes "place, and which throws heavy charges on the metal ordained as a legal "tender, viz., silver. The gold of Australia must go to London to be exchanged "for silver, which is then sent out to India, after being bought at an artificially "high price in Europe and the United States. The European markets are the "middle men who obtain their profits on the silver sent to India to restore the "balance of trade."

37. Sir Charles Trevelyan ably set forth the same point thus :—

"England has a southern as well as an eastern empire, and the great "staple of that southern empire is gold. Owing to the exclusion of gold from "the Indian currency, the trade with Australia is chiefly carried on in this "way. The gold of Australia is sent to England, where it is employed in buy-"ing silver, and the silver is sent to India burdened with the charges of the "double voyage, and with the additional interest accrued during the long "period occupied by it. The cotton and other exports of India are charged "with the extra expense arising from this circuitous mode of payment. Even "a worse result is, that the trade cannot be carried of in a regular manner. "The gold remains in the Bank of England until the Indian demand sets in, "and then it is suddenly withdrawn to sweep the continent of silver for trans-"mission to India."

38. The fact that the trade between India and Australia is not great, and is not likely to grow essentially, would not, of course, constitute a difficulty. It is true that if India received a large amount of gold from Australia she would not be able to send her produce to Australia in return. But the balance in favour of Australia would be settled and adjusted in the trade between India and England and England and Australia. India has extensive claims upon England for produce exported thither. She would transfer to Australia a portion of those claims, and thus pay for the gold.

39. The adjustments which take place in China will afford an illustration. China owes India yearly a large sum for opium. She does not wholly pay this debt by produce or treasure. She pays in part by transferring to India her claims upon England for Chinese produce exported thither.

* The extra expense now incurred by the Indian population on account of freight, the loss arising from Indian money being held up in England waiting for purchase of silver, the increased cost of mintage and greater wear and tear of silver currency—all of which could be saved if a gold currency were prevalent in India—is generally estimated at nearly one million of Pounds sterling every year.

40. But, further, there is one marked peculiarity in the situation of India —which is perhaps almost unique in the world—in that she has annually to remit to England money to the sum of many millions. The liability is as serious as it is inevitable, and the cost of so vast a remittance amounts to nearly half a million pounds annually, and sometimes more.

41. While the Indian currency is in silver only, the principal means of remittance must be silver. Under these circumstances, India will never possess gold in adequate quantities. The balance due to her on trade will be paid in silver; in the main, she must take that metal and none other. And she will possess no other precious metal wherewith to pay whatever there is to be paid by her in specie. She will have, then, only her silver and her produce wherewith to discharge her obligations.

42. But as England has a gold currency the payments must be made in that metal, so far as they have to be made in money at all. And as India has to pay in gold, she must obtain gold either by means of her silver or her produce. This is the real basis of the transaction, though in practice India does not generally make her payments in specie. She receives gold in England from purchasers of bills called Council drafts, and pays to the holders of these drafts silver from the Indian Treasuries. But the payments are settled and adjusted in gold, and the difference chargeable to her on these adjustments comes to the same thing as if she had purchased with silver, or produce, the gold wherewith to make payments.

43. This arrangement appears to be inconvenient to India in various ways.

44. In the first place, she obtains her silver through England. The cost of effecting this is considerable. Then she has virtually to bear the charge of exchanging silver in her own limits for gold in England, and the cost of that, again, is considerable. It would be more economical, and more convenient if she herself possessed the gold in which the payments had to be made. If her currency were to be gold, then she would always possess quantities of the very metal in which her obligations have to be discharged and her account adjusted.

45. If the currency of England had been silver, then the argument would be somewhat altered. At present India has a sort of double difficulty. Firstly, she has to make this great payment annually, in itself a difficulty. Then she has the additional difficulty of purchasing the metal in which the payment is calculated. This additional burden is caused by the present state of the currency. And this must aggravate the charges to which India is subject.

46. Again, under the existing status, the relative value of silver to gold is the regulator in all respects of the cost of these transactions to India. The value of silver is, of course, liable to fluctuations. For the value of gold in England being determined by law, and that of silver being not so determined, these fluctuations as regards silver are appreciably great, and are sometimes embarrassing by reason of the trouble and expense which they cause. Within India the value of silver is indeed determined by law, but that fact is of no use nor validity in respect to the exchange with England. Now, this difficulty

would be mitigated, perhaps almost removed, if India had also a gold currency, with the same status as that of England, that is, with the value determined by law.

47. Mr. Goschen, in his work on Foreign Exchanges, writes :—

"Considering the case between silver and gold. When a bill on Ham-"burg payable in silver is bought in London for a certain price, payable in "sovereigns, what will determine the value ? . . . . . .
"Gold is simply merchandise in such countries as have a silver currency, and "silver is merchandise in such countries as have a gold standard ; and according "to the price of the merchandise at a given moment, so will the exchanges "fluctuate. When a bill on Hamburg is to be sold in London, all the previous "elements of value will have to be taken into consideration ; the rate of inter-"est in the two countries, the state of credit, relative indebtedness, and so "forth, but the value of silver in England will enter largely into consideration, "or, in the opposite case, the value of gold in Hamburg."

Now, it seems to me that, *mutato nomine*, the same story might be told of the exchange between England and her Indian dependencies, and that the process inevitably places India at a disadvantage.

48. Thus I contend that there should be one standard only of value for the two countries ; in other words, that the standard for India should be the same as that for England ; that India is specially entitled to this advantage because she is more conveniently situated as respects the gold-producing regions than the silver-producing regions, and because gold is the currency of the country to which India has to make such great payments ; and that a gold currency would not only cause a saving to India in the procuring of so important an article as specie, but would also lessen the difficulties arising from the pecuniary obligations of India towards England.

49. There is one more point to be noticed, which is this : it is observed by the Financial Secretary, Mr. R. B. Chapman, that when, upon the establishment of a gold standard, silver came to be demonetised, and the intrinsic value of the rupee to be diminished, the effect on the native mind would be bad. Mr. Chapman's words are : "It follows that we shall have to substitute for the "use of the masses of our population a token silver currency for the present "full value currency. Are we at all certain what the effect of this will be upon "the ignorant population, or how a silver token currency will work alongside "of a full value Native State silver currency ?"

50. It is quite true that the natives will always look to the intrinsic as well as to the nominal value of the rupee. Although the new rupee, with a less intrinsic value of, say, 6 per cent., may pass in currency for the same value as the old rupee, still the natives will not estimate it so highly as the old rupee, because they use rupees for melting and for hoarding as well as for currency. All this may be admitted to the full. But what then ? I fail to

perceive what evil would follow. It is said that the natives would prefer the rupees of Native States, in which the proportion of alloy might be less than in the demonetised British rupee. It might not be of much consequence if this were to be the case. But it by no means follows that any such consequence would arise. If natives closely estimate the grains of fine silver in the rupee, they will weigh accurately the British rupee against the Native rupee. And the British rupee will be valued at its rate in fine silver, at least. Besides this, it would have the advantage of being legal tender in British territory for small amounts, which the Native rupee would not. And this advantage must secure the preference to the British over the Native rupee, as silver to silver.

51. It might be said, of course, that the British rupee would cease to possess the estimation it now possesses, and this portion of our currency would decline in reputation. Very true, no doubt. But, on the other hand, we should have given the country a gold currency the coins of which would rise rapidly to the highest repute, and to a degree of estimation to which even our silver has never yet risen. I believe that no coins that ever were coined in this country would be so popular as the gold legal tender coinage of the British Government. In other words, while we deprive the people of the old silver standard, we give them in return a superior gold standard. And thus the last state of the currency would be far better than the first.

52. Further, it is sometimes urged, as a reason against introducing a gold currency, that there is never likely to be a sufficient quantity of gold available to justify its being declared legal tender. The quantity of specie required for circulation in India was estimated, fifteen years since, at 150 millions sterling, or rather, that was the supposed value of the silver coins in circulation. Within this century the net importation of gold has exceeded 99 millions, but only a small portion of it has been coined.* Having regard to the long period that

* SILVER COINAGE.	£
From 1801 to 1834-35	63,631,833
From 1835-36 to 1870-71	196,776,414
	260,408,247
GOLD COINAGE.	
From 1801 to 1834-35	11,060,148
From 1835-36 to 1870-71	2,061,972
	13,122,120
TOTAL GOLD AND SILVER COINAGE.	
From 1801 to 1834-35	74,691,981
From 1835-36 to 1870-71	198,838,386
	273,530,367
IMPORTS, GOLD	
From 1801 to 1834-35	9,455,635
From 1835-36 to 1870-71	95,030,569
	104,486,204
EXPORTS, GOLD	
From 1801 to 1834-35	2,033,442
From 1835-36 to 1870-71	3,015,342
	5,048,784
Net Imports.	99,437,420

coin lasts, the coinage may now be estimated at more than 150 millions sterling, and the amount of gold bullion and specie in India is within this amount. These several quantities may not indeed be precisely known. But it is quite true that the amount of gold available or obtainable in India under present circumstances is very small, as compared with silver, and is not as yet nearly enough for what the requirements of the country would be after gold being declared legal tender. But though I admit all this to the full as fact, I do not at all admit it as a reason for refraining to declare gold to be legal tender. For, manifestly, the gold, having been once declared to be legal tender, would become one of the needs of the national existence. Gold would be an article which the country must purchase; and with its large surplus of exported produce over imported goods, and with an ample balance of trade in its favour, the country would have no difficulty in purchasing gold, which metal it could, as has been seen already, obtained direct from Australia on reasonable, perhaps even on favourable, terms. If then, the need of gold for currency in India were to be anticipated, its influx into the country would be a matter of a few months, perhaps only of a few weeks, and the want would hardly have begun to be felt before it was supplied.

Before concluding, I would add that experience does not shake my belief that the relative value of gold and silver is represented according to scientific theory and principle by the present gold coinage of India, that is, 120 grains gold-piece to 10 rupees; that the present rate offered by the Government of India in 1869 for the English and Australian sovereign, 10¼ rupees (ten rupees and four annas), coincides as nearly as possible with that standard; and that the conclusions arrived at by the Currency Commission in 1867 are sound. It is true that very few sovereigns have been received in the Treasuries since 1869, but this circumstance is attributable, not to any defect in the rating (10¼ rupees to the sovereign), but to the state of the exchanges, which have precluded the importation of gold bullion, silver being sole legal tender. How can gold compete with silver in India, while the latter has a value fixed by law and the former has not? I understand that, as a matter of fact, gold can still be laid down in India at something less than 10¼ rupees for the sovereign; and that so far the 10¼ rupees rate must yield a profit on the importation. If that be so, then this rate would still seem to be the right one. And the non-arrival of gold must apparently be due to artificial causes, which amount to this, that gold is at a disadvantage as compared to silver, which is favoured by law. If this be so, then the fact that gold sovereigns command in the market at most times a higher price than 10¼ rupees and the 120 grains gold-piece a higher price than 10 rupees, must be owing to adventitious causes, and to the circumstance that, the supply of these coins being very limited, there is a source of fancy demand for them, which is no criterion of what their value would be under a different status.

I still hold to the opinion that if it were determined to have a gold currency, we should mainly employ our Indian gold coins for that purpose. I would

not object to make the sovereign a legal tender for 10 rupees and 4 annas. But the sovereign being worth 10 rupees and a fraction over, there might be some slight trouble of calculation in changing it for silver, and this would be a drawback in respect of the use of the sovereign as currency in India. And if this objection were urged, I would not press for the sovereign being declared legal tender. But we should continue, under any circumstances, to receive the sovereign in our Treasuries at the present rating.

I believe that a repugnance is felt by some to the present determination of the question of a gold currency in India because of the prospect of some universal coin being adopted internationally. But the prospect seems practically to be almost disappearing. At all events, the Report of the English Commission on International Coinage, presided over by Lord Halifax, seems to be quite adverse to any change in the value of the English sovereign.

I have not dealt with the objection which has been sometimes urged to a gold currency, to the effect that the National Debt, and the paper currency, are calculated in rupees. For the objection has been disposed of more than once in the papers relating to gold. The sum seems to me to be this—we promised to pay in rupees, and we should pay in gold determined by law to be equivalent to rupees.

I have hardly in this paper undertaken to treat of all the points connected with this important subject, still less to discuss all the collateral matters which might suggest themselves for discussion. But the subject in all its bearings has been dealt with in the Report of the Indian Currency Commission of 1867, in the volume of printed papers relating to gold currency in India, in the file of correspondence relating to the revised notification of 1869-70, and in the additional papers now submitted. I am unwilling to add more than I can help to the mass of writing which already exists.

In conclusion, I would ask early and favourable consideration to the proposals of Mr. Dickson, which I will give in his own words:—

"I. To authorise the receipt of English and Australian sovereigns into "all the Government Treasuries of India, without restriction and whether "tendered in payment of Government dues or in exchange for silver.

"II. In conformity with the provisions of the Currency Act, to autho- "rise the issue of currency notes in exchange for gold bullion tendered at the mint for coinage into Indian gold sovereigns at the rate of 10 rupees for 120 "grains of gold of standard fineness, less seigniorage."

I believe that these recommendations are safe and practical. They are the first steps towards a gold currency. If they succeeded, their usefulness would be too plain to require description. If they did not succeed, still no harm would be done. If in consequence we were to have any quantity of gold on our hands which could not be conveniently disposed of in India, we could use it for the remittances to England without loss, and perhaps even with profit.

But if, after the adoption of such measures, gold bullion should not be imported; if sovereigns should not be received at the Treasuries; if doubt still existed as to whether the relative value of gold and silver is correctly determined by our present rating and coinage; then I hope that the matter may not be allowed to drop. If the present rating of 10¼ rupees, and the present weight of 120 grains, are not proper (as hitherto we have affirmed that they are) then what rate and what weight are proper? Nobody supposes that we have offered too much silver for the gold; then, if this offer be not the proper one, is it really too little? Ought we to offer more? These are questions which, as I submit, the Government of India ought to be able to determine. These are questions which have been determined by every civilized nation that has adopted a gold currency. No doubt, it is a difficult and important problem, but it cannot be insoluble, and it ought to be solved. If the enquiries which have been made, and the data which are available, be not sufficient, then another Commission might be appointed, so that the matter could be brought to an issue one way or the other; and that all the facts and considerations could be br ought up to date.

15th May, 1872. R. TEMPLE.

APPENDIX B.

Memorandum of Evidence submitted to the Royal Commission on Indian Currency and Finance, 1913, by the Honorable Mr. M. De P. Webb, C. I. E., Chairman of the Karachi Chamber of Commerce, and additional member of the Bombay Presidency Legislative Council, on the question of re-opening of the Indian Mints for free coinage of gold :—

(1) The most important, because vital, portion of the Indian Currency Committee's (1898) recommendations is contained, in my opinion, in Section 54 of the Report :—

"We consider that the Indian Mints should be thrown open to the unres-"tricted coinage of gold on terms and conditions such as govern the three Aus-"tralian Branches of the Royal Mint. The result would be that under iden-"tical conditions the sovereign would be coined and would circulate both at "Home and in India."

(2) The India Office and the Government of India at once endeavoured to give effect to this recommendation; but the Deputy Master of the Mint in London, by a Report that was in one respect historically imperfect, and in another economically unsound, appears to have misled both the Treasury and the India Office, with the result that the Government of India after two years of correspondence with the Home authorities (during which every departmental detail asked for by the London Mint Master was conceded), at length—25th December, 1902—decided to postpone the scheme until a more favourable opportunity should arise. The consequences of that unfortunate step have been the complete subjection of India's currency and finances to official "management" from London, and the chaotic condition of affairs that has led to the present investigation.

(3) Last year the Government of India again represented to the Secretary of State, the paramount necessity of re-opening India's Mint to the public. The free coinage of gold in India was again urged, but owing apparently, to some difference of opinion between the Government of India and the India Office regarding the value of the gold coin to be struck and the authority under whose instructions the new Indian Gold Mint should work, the matter is again in abeyance, and India still continues to lack the central feature of a modern currency system, namely, an open, free, gold Mint.

(4) I am strongly of opinion that the Bombay Mint should be opened forthwith to the free coinage of gold, as specifically recommended by the Indian Currency Committee fourteen years ago. Further, in view of the facts that sovereigns already

(*a*) are legal tender in India,

(*b*) are being regularly imported into India,

(*c*) are now in circulation to the extent of over £40,000,000 in India; and

(*d*) are daily growing in popularity in India.

I am of opinion that the sovereign is the best gold coin for use as currency in India. If, however, the departmental difficulties of coining sovereigns in Bombay be absolutely insuperable by Government, then an Indian sovereign of exactly the same size, weight, and fineness as the British sovereign is, in my opinion, far preferable to a new Indian gold coin of the value of ten rupees.

(5) The recommendations of the Indian Currency Committee, which I consider next in importance, are contained in Sections 54, 59, and 60 of the Report. Section 54 recommends that the British sovereign be made legal tender and current coin in India. Section 60 recommends that . . . "Fresh rupees should not be coined until the proportion of gold in the currency "is found to exceed the requirements of the public", whilst Section 59 suggests that . . . . . "When Government has accumu-"lated a sufficient gold reserve, and so long as gold is available in its Treasury, "it might discharge its obligations in gold instead of rupees." . . . These recommendations clearly lay down an active policy for Government with the object of promoting the use of gold as currency, and, if carried out, would go far to place India's token currency on the most satisfactory and stable basis.

(6) The recommendation to make the British sovereign a legal tender in India was at once carried out, but the other recommendations, where not wholly ignored, have been but indifferently observed. The action of the India Office in selling rupees at prices below the equivalent of gold import point, for example, was, as I have already pointed out, a direct incentive to India to use silver token currency in preference to British sovereigns. Nor was this active opposition to the establishment of a gold currency in India counteracted in any way by the Government of India. In reply to an inquiry in May, 1912, by the Karachi Chamber of Commerce as to what steps were being taken by Government to give effect to the recommendations of the Indian Currency Committee for popularizing sovereigns in India, the Government of India replied (17th June, 1912) that

" . . the policy of Government has been, and is, "while refraining from taking any steps to force gold on the people, to discharge "their obligations in sovereigns *wherever payees so desire.*" . . . (my italics). In other words, the policy of Government has been, in effect, to ignore the recommendation of the Indian Currency Committee to . . "dischange its obligation in gold" . . . . . and to do

nothing in this direction unless the Indian public demanded sovereigns. This "wait-and-see" attitude has, in my opinion, greatly delayed the carrying out of the recommendations of the Indian Currency Committee, and is much to be deplored.

(7) I am of opinion that the period of inactivity in these matters should now be brought to a close, and that the Indian Currency Committee's Report having been accepted by Government, the recommendations contained in that Report should now be acted upon without further delay. The attitude of the Government of India in this connection, namely, to carry out the recommendations *if the Indian public so desire*, seems to me weak and unbusinesslike. I therefore urge

(*a*) That the Bombay Mint be opened at once to the free coinage of sovereigns, the Mint being equipped with an up-to-date refinery capable of dealing promptly and efficiently with the products of the Indian gold mines;

(*b*) That the Government of India now discharge its obligations in sovereigns as far as possible;

(*c*) That no more token coinage except for replenishing wear and tear and loss by export, be manufactured unless and until it be proved that the proportion of gold in the currency exceeds the requirements of the public. (And in this connection the statistics of bygone years and conditions are not, of course, safe guides.)

(8) If Government "put their hearts" into this business, to use Professor MacLeod's expression, India will very soon have a gold currency in active circulation—at the Banks and in the Government Treasuries—somewhere approaching £100,000,000. With such a currency in use, the exchange value of the rupee will be as permanently secured as the exchange value of the English shilling, or the French five franc piece, or the silver dollar of the United States of America. And that, too, without the necessity of maintaining any Gold Standard Reserve, or other wasteful and possibly delusive substitute of that kind.

(9) In this connection it is desirable to recall the words of the late Sir Samuel Montagu in 1899. When giving evidence before the Indian Currency Committee, he drew the Committee's attention to the fact that the world's production of gold was then "unequalled". Whilst strongly advocating a gold currency for India, he added: "You would do a service, I think, to Europe "if you were gradually to utilize this extraordinary surplus of gold". Asked if he thought that the establishment of a gold standard and currency would have an "appreciably injurious effect on the gold market of the world," Sir Samuel Montagu replied, "I think not". Since this opinion was given the world's output of gold has almost doubled, and is now on the verge of £100 000,000 per

annum. Notwithstanding the enormous sums of gold withdrawn from the world's use by the United States of America, by the great military Powers of the Continent of Europe, and by the growing South American Republics, the value of gold is everywhere diminishing—prices are universally rising. There is ample gold, therefore, to satisfy the world's requirements, including the requirements of India. Moreover, the utilization of some of this gold by India would tend to arrest the present unhealthy rise in prices, which is by no means wholly advantageous to a creditor nation consisting largely of small, fixed wage earners—such as Great Britain.

I. INDEX TO THE INTRODUCTION.

II. GENERAL INDEX.

(Chaps. I—V ; 2 Appendices.)

